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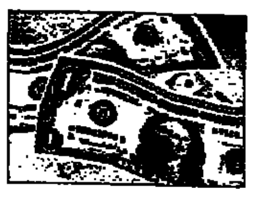

Deflation dangers
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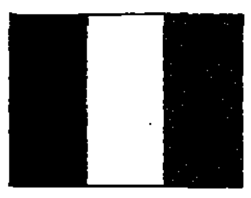

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WORLD NEWS

Rival Czech parties in surprise deal to end deadlock

The Czech Social Democrats, the largest party in last month's general election, are expected to form a minority leftwing government after reaching a surprise deal with their main opponents, the rightwing Civic Democratic party, led by the former prime minister, Václav Klaus. **Page 2**

Nigerian leader appeals for calm General Abdulsalam Abubakar, *Nigeria's military ruler, paid a moving* personal tribute to Moshood Abiola, the opposition leader who died unexpectedly on Tuesday when he was about to be released from jail, and appealed for calm in the wake of violent urban rioting. **Page 14; Nightmare of break-up, Page 4; Editorial Comment and Observer, Page 13; World stocks, Page 36**

French left urges PM to sting rich Lionel Jospin, the French prime minister, is being lobbied by his Communist partners to apply a further *squeeze on the wealthy ahead* of a final decision on tax measures for the 1999 budget. **Page 2**

Ulster reports 400 attacks in 4 days There have been more than 400 attacks on Northern Ireland security forces since the Protestant *Orange Order was barred from part* of a traditional parade route on Sunday. **Page 8**

Plan for UN action on Kosovo The six-nation Contact Group took a step towards a United Nations security council resolution to enforce peace *in Kosovo.* **Page 2**

Van Mierlo joins 'exodus' Hans van Mierlo will not return as foreign minister in the new Dutch government, joining an exodus which threatens to leave the cabinet thin on expertise in international affairs. **Page 3**

Russia rebukes Ukraine over Nato Russia rebuked Boris Tarasyuk, Ukraine's foreign minister, for describing Nato's eastward enlargement as "the expansion of a zone of security and stability in Europe". **Page 3**

Clinton plea over gun control President Bill Clinton called for tighter restrictions on children's access to guns. Mr Clinton expressed support for a Senate bill that would hold adults criminally responsible if they allow children access to loaded firearms.

New Yorker's editor quits Tina Brown, the celebrated editor of The New Yorker magazine, has resigned for a starring role in a new entertainment company backed by Walt Disney. **Page 7**

France in World Cup final France beat Croatia 2-1 in the World Cup's second semi-final last night. They will play Brazil in Sunday's final. **World Cup, Page 10**

One in three children unregistered One in three children is not registered at birth, leaving them without proof of identity or age that may deny them education, healthcare and even a nationality. **Page 4**

Australia passes land law *Australia's federal parliament* passed controversial legislation curbing land rights of aborigines, averting the risk of an early race-based general election. **Page 14**

Golkar strips Suharto of last powers Indonesia's ruling Golkar party is to *strip former president Suharto of* his last powers and elect a chairman who may well pose a challenge to the new president, B. J. Habibie. **Page 6**

BUSINESS NEWS

WorldCom agrees MCI disposals for Europe's approval

WorldCom's $37bn takeover of MCI Communications looks set to be completed before the end of next month after getting the green light in Brussels, where European Union anti-trust regulators said agreement had been reached over disposal of MCI's internet activities. **Page 15; Lex, Page 14**

German equities celebrated future trading links between the London *and Frankfurt stock markets by* closing above the 6,000 level for the first time. The Xetra Dax ended the session up 43.01 to 6,018.89 after touching 6,025. **Page 36; Agenda for alliance, Page 15**

Elf Aquitaine, the French oil group, *awarded development contracts* totalling more than $1.1bn to expand exploitation of the promising Girassol deep-water oilfield it operates off Angola. **Page 4**

Ericsson of Sweden said it had signed a $40m contract to supply a turnkey GSM cellular telephone network to Paltel, the Palestinian telecommunications company. **Page 18**

UK new car sales rose nearly 12 per cent in June over the year before, lifting the six-month gain to 7.8 per cent. **Page 9**

Banca di Roma, the Italian commercial banking group, may securitise its non-performing loans in a move to improve asset quality after failing to merge with Banca Commerciale Italiana. **Page 16**

CVC Capital Partners, the venture specialist, has surpassed rivals by raising a $3.1bn pan-European buyout fund. **Page 21**

Club Méditerranée, the French holiday village operator that has undergone restructuring, pulled *back out of the red with profits of* FFr132m ($21.8m) in the six months to April 30. **Page 15**

The yen fell sharply against the US dollar after Japan's prime minister Ryutaro Hashimoto again failed to commit himself to income tax cuts to stimulate the economy. **Page 6; Japan and deflation, Page 12**

General Motors management and union representatives hinted at progress as they resumed talks aimed at ending US strikes that have crippled production. **Page 7**

McNeil Consumer Products, the Johnson & Johnson subsidiary and leader in over-the-counter pain relievers, agreed to revise its Tylenol labels to warn of possible liver damage if chronic alcohol users exceed dosage. **Page 20**

Motorola, the communications equipment and semiconductor manufacturer, warned it expected only break-even operating results in the third quarter, despite job cuts and consolidation. **Page 15**

The World Bank and International Monetary Fund are struggling to secure $6bn in new loans for Indonesia, raising concerns that Jakarta may have to declare a debt moratorium to keep its budget deficit under control. **Page 6**

Jardine Fleming tightened control over its Asian stockbroking franchise, drawing a clearer distinction between itself and co-parent in the UK, Robert Fleming. **Page 17**

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.
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Bankers criticise ECB plan for minimum reserve system

European Central Bank president Wim Duisenberg defended the introduction of a system of minimum reserves for the 11 members of Emu. Picture: Reuters

By Wolfgang Münchau in Frankfurt and George Graham in London

The European Central Bank attracted fresh controversy yesterday by opting for a system of minimum reserves as a key monetary policy tool for the 11 members of European economic and monetary union.

Rolf Breuer, chairman of Deutsche Bank, Germany's largest commercial bank, was immediately dismissive of the decision, made by the bank's 17-member governing council. Mr Breuer said minimum reserves always imposed costs on banks, even if they earned interest. "Minimum reserves are an outmoded instrument," he said.

Wim Duisenberg, whose selection as ECB president in May was the subject of a long and bitter row between France and *other EU governments, defended* the move as a necessary step to give the central bank sufficient flexibility to fine-tune monetary policy after the launch of the single European currency on January 1 1999.

Under a minimum reserve system, commercial banks are obliged to park funds at the central bank in proportion to their deposits. The ECB said it would vary the ratio between 1.5 and 2.5 per cent of deposits as a way of influencing banks' policies.

The ECB decided minimum reserves would be remunerated at the prevailing repo-rate, the ECB's key short-term interest rate, in a bid to appease the banking industry and to mitigate competitive distortions in the sector. The ECB's council also settled a long-running dispute *over Target, the payments sys*tem of the euro-zone. A compromise will allow banks based in European Union countries that do not participate in Emu almost full access to the payments mechanism.

The ECB's council also decided yesterday that gold should make up 15 per cent of its total reserves of E39.5bn.

But in a sign of another looming policy conflict, Mr Duisenberg yesterday gave a blunt warning to European governments that they risked higher interest rates if they failed to cut budget deficits further. He said failure to consolidate budgets could "strain monetary policy".

His warning reflects growing concern among European officials that member states could repeat the mistakes of the late *1980s when they failed to cut* structural deficit during a period of strong economic growth. Mr Duisenberg said EU member states should use the growth dividend from the present economic recovery for deficit reduction.

His warning is also a sign that the ECB will give policy recommendations to individual governments and may even risk a public confrontation. Mr Duisenberg also presented the ECB's first economic data. M3, a broader measure of money, went up from 5.5 per cent in March to about 6 per cent in April. M1, measure of narrow money supply, has been growing at annual rates of around 10 per cent.

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Farmers hit EU plans for Latin American trade deal

By Neil Buckley in Brussels

The European Union's drive to forge regional free trade areas suffered another setback yesterday when plans for an ambitious deal with the Latin American trade pact, Mercosur, faltered.

The delay is another demonstration of the power of the farmers' lobby – which hotly opposes the Mercosur plan – and the extent to which agricultural concerns are holding back Brussels' free trade ambitions.

It comes only months after France vetoed the initiative of Sir Leon Brittan, trade commissioner, for sweeping trade liberalisation talks with the US – the so-called New Transatlantic Marketplace. France was worried *that sensitive areas such as agri*culture could not be kept out of the talks. Three-year-old trade talks with South Africa have also been dragged out by EU states' desire to protect their markets from cheap farm imports.

The 20 European Commissioners were due to vote yesterday on a negotiating framework for a deal with the Mercosur countries of Brazil, Argentina, Paraguay and Uruguay, plus Chile, a Mercosur associate member.

Like the NTM, the Mercosur plan – the initiative of Manuel Marin, EU commissioner for Latin America – would progressively sweep away tariffs over 10 years. Officials say it could provide a $6.2bn annual boost to the EU economy, and $5.1bn to Mercosur. It could also serve to counter growing US influence in Latin America.

But Franz Fischler, agriculture commissioner, supported by commission president Jacques Santer, demanded a delay to allow completion of a study of the impact on EU farming. The Mercosur plan had earlier been described as "incomprehensible" by COPA, the EU farming lobby, and "disastrous" by the French farmers' union.

Commissioners will reconsider the plan in a fortnight, when the agricultural study is completed. But even if it passes that hurdle, opposition from France and others could send the initiative the same way as the NTM, preventing it getting the necessary unanimous approval from ministers.

Brussels backs BA-AA alliance

By Samer Iskandar in Brussels and Michael Skapinker in London

The European Commission yesterday recommended that the planned British Airways-American Airlines alliance and the partnership between United Airlines of the US, Lufthansa of Germany and Scandinavian Airlines System be allowed to go ahead. But it said the carriers must give up hundreds of airport take-off and landing slots.

BA and American expressed relief that Karel Van Miert, European Union competition commissioner, had toned down his original conditions, and said they believed their alliance, the most powerful in aviation history, would clear the remaining UK and US regulatory hurdles. Lufthansa and United, whose partnership has already won US approval, reacted angrily and threatened legal action against Brussels.

Mr Van Miert said BA and American would have to give 267 weekly slots to rival airlines without compensation. Between 220 and 230 of the slots will be at London's Heathrow airport, with the remainder at Gatwick. Lufthansa and United will have to give up 108 slots, mostly at Frankfurt airport.

Mr Van Miert also ordered the airlines to limit flights on busy routes for six months if rivals wanted to set up competing services.

BA and American will have to restrict services on flights between London and Chicago, Miami and Dallas. Lufthansa and United will have to limit services from Frankfurt to Chicago and Washington. *The US told Mr Van* Miert it opposed these restrictions.

The commission is still investigating two other alliances – one involving KLM of the Netherlands and Northwest Airlines of the US, and the other between Delta Air Lines of the US, Sabena of Belgium, Austrian Airlines and Swissair.

The BA-American alliance, which was first announced in June 1996, has to be cleared by the US department of transportation and by Margaret Beckett, the UK trade and industry secretary. Both decisions are expected in the autumn, but Mrs Beckett said yesterday she had already decided to propose that the alliance be approved.

For the alliance to proceed, the UK and US will have to conclude a new "open skies" agreement, allowing airlines from one country to fly to any airport in the other without seeking government approval.

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ABN Amro to take over Brazilian bank

By Gordon Cramb in Amsterdam and Geoff Dyer in São Paulo

ABN Amro, the leading Dutch bank, yesterday laid claim to a long-sought third home market by agreeing a deal worth up to $3bn to take over Brazil's Banco Real.

The Dutch bank, which already has a strong presence in the US Midwest, is paying $2.1bn cash for 40 per cent of the voting rights in the fourth largest private sector bank in Brazil. Banco Real has assets of $15bn and serves some 2.2m retail clients through 1,372 domestic branches.

The accord announced yesterday with Aloysio de Andrade Faria, *a retired doctor who is the* bank's main shareholder and non-executive chairman, also includes full control of finance and insurance operations across Latin America. These have a combined $1.5bn in assets.

Dr Faria's stake will give ABN Amro only a 17 per cent economic interest in the bank itself. The rest it will acquire on the stock market through an offer for non-voting shares, which trade at a deep discount. Jan Kalff, ABN Amro chairman, indicated that the total cost was likely to approach $3bn. The purchase from Dr Faria alone ranks as the Dutch group's biggest takeover. In recent months, it has failed in bids for CIC in France and Belgium's Générale de Banque. Mr Kalff said he was still "looking at opportunities in several countries".

ABN Amro shares, which have languished since Générale went to the Belgo-Dutch Fortis, closed Fl 2.20 higher in Amsterdam at Fl 50.60. Mr Kalff said the bank was paying about 10 times Real's expected 1999 earnings. He predicted pre-tax profits of some $1.2bn a year from Brazil after two years.

The agreement is the latest in a series of acquisitions of Brazilian institutions over the last 18 months by foreign banks, which now control 16.4 per cent of the Brazilian banking system in terms of assets, according to Austin Asis, a consulting firm.

The purchase is to be funded partially by the issue of $1bn in preferred stock.

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WORLD MARKETS

STOCK MARKET INDICES		
New York		
Dow Jones Ind Av	9,174.97	(+69.93)
NASDAQ Composite	1,935.39	(+27.28)
Europe and Far East		
CAC40	4,339.91	(+6.62)
DAX	6,013.14	(+52.16)
FTSE 100	6,009.5	(+8.2)
Nikkei	16,530.97	(+114.69)
US RATES		
Federal Funds	5.43%	(5.37%)
3-mth Treas Bills: Yld	5.062%	(5.114%)
Long Bond	107⅞	(107⅞)
Yield	5.622%	(5.587%)
OTHER RATES		
UK: 3-mo Interbank	7⅞%	([illegible])
UK: 10 yr Gilt	109.8828	(110.172)
France: 10 yr OAT	105.38	(105.49)
Germany: 10 yr Bund	109.16	(109.23)
Japan: 10 yr JGB	110.7	(111.15)
NORTH SEA OIL (Argus)		
Brent Dated	$11.63	(11.445)

GOLD		
New York Comex		
July	$293.3	(295)
London		
	$292.35	(294.35)
EXCHANGE RATES		
Dollar		
New York		
£	1.63865	(1.6377)
DM	1.81925	(1.814)
FFr	6.095	(6.08)
SFr	1.52905	(1.5283)
Y	139.415	(138.7)
London		
£	1.6372	(1.6405)
DM	1.8179	(1.8122)
FFr	6.094	(6.0759)
SFr	1.5267	(1.5246)
Y	139.73	(138.365)
Tokyo Close		Y 139.25
Sterling		
DM	2.9762	(2.9726)

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WORLD NEWS

EUROPE

Bankers differ over ECB minimum reserves system

By Wolfgang Münchau in Frankfurt

The European Central Bank's decision to introduce minimum reserves came after strong pressure from the Bundesbank, the Bank of France and the Bank of Italy, which all operate such systems.

But banking observers were surprised that the ECB had adopted the most generous system of compensation - deciding that reserves should earn interest at the prevailing securities repurchase rate, the most important short-term rate in the future European economic and monetary union.

Central bankers favour minimum reserves systems because they allow fine-tuning of monetary policy through the change in the reserve ratio. They also provide a wealth of statistical information about the banking sector.

Commercial banks reject the system as costly and outmoded, and some senior bankers yesterday criticised the ECB's move. Rolf Breuer, chairman of Deutsche Bank, said: "I remain unconvinced whether the minimum reserve system is a necessary and appropriate monetary policy instrument."

The remuneration of the deposits did not eradicate the competitive disadvantage suffered by European banks, he added.

Reaction from the German banking association was more muted. The federation of public sector banks in Germany welcomed the decision, because it showed the ECB took a "practical approach". The governing board decided the reserve ratio should apply to deposits, debt securities and money market paper. The reserve ratios will be in a range of 1.5-2.5 per cent of the liability base, with precise figures chosen later this year.

There will be a zero-rate minimum reserve on securities repurchase operations (repos), the regular money market tenders through which central banks will inject liquidity into the financial system. Zero-rating will also apply to debt securities and deposits with a maturity of over two years.

The ECB governing board voted to compensate banks for potential competitive distortions caused by this system, by paying market interest rates on the deposits. Analysts had expected the ECB to choose a rate at below commercial market rates, or no interest rate at all. The decision means the minimum reserve system should have little effect on the relative competitive positions of banks inside the euro-zone and banks outside Emu.

Minimum reserve regimes vary throughout the European Union. The UK imposes no minimum reserves. Germany imposes minimum reserves on sight and savings deposits of 1.5-2 per cent, but pays no interest. The French minimum reserve ratio is 1 per cent; in Italy it is up to 9 per cent.

The minimum reserves principle remains a controversial monetary policy tool. But Wim Duisenberg, ECB president, said governors attached "high importance to its contribution to the stabilisation of money market interest rates". Minimum reserves were a useful device to counteract a sudden surge in demand for central bank money, he added, because they allowed the ECB to create a structural liquidity shortage in the market.

Eddie George, Bank of England governor, gave a cautious welcome to the decision. He told a conference in Frankfurt yesterday that the decision would help iron out competitive distortion in the European banking sector. The UK will not be immediately affected by the decision, but must introduce minimum reserves if and when it enters Emu.

Bank sets out the terms for Target access

By Wolfgang Münchau

The European Central Bank has decided that banks in the UK, Denmark, Sweden and Greece will have almost full access to Target, the settlement system for money transactions in the euro-zone.

Target is a real-time gross settlement system through which central banks and commercial banks channel money transactions. As a real-time system, transactions are carried out and settled almost instantly.

But the system relies heavily on intra-day credit, which the central bank provides as a liquidity buffer.

Terms under which central banks not part of the euro-zone could access the Target system were in dispute two years ago. Several European central banks wanted to place heavy curbs on non-participants.

They argued that intra-day liquidity not repaid by the end of the day would turn into overnight credit and would then become part of the money-creation process. This could pose potential risks for the euro-zone, especially in times of speculative crises.

The terms set by the ECB will allow the Bank of England to place deposits of up to E3bn ($3.3bn) into the European System of Central Banks – the ECB and the 11 participating national central banks.

The Bank of England will be able to cover its own liquidity needs out of this deposit.

The ceiling for the other three non-participating central banks is E1bn.

Commercial banks in the non-participating countries will be able to obtain intraday liquidity from their own national central banks, but this liquidity must be fully collateralised.

French left urge PM to soak the rich

By Robert Graham in Paris

"Soak the rich" is still proving to be the rallying cry of the left in France.

Two weeks away from a final decision on new tax measures for the 1999 budget, Lionel Jospin, the prime minister, is being lobbied hard by his Communist partners in government to apply a further squeeze on the wealthy.

With the Paris bourse registering record rises this year and ordinary wages increasing above inflation, the leftists backing his Socialist-led government feel they have a strong case.

The left's attention has centred on France's *impôt de solidarité sur la fortune* (ISF), introduced in 1988. The tax is levied on a person's capital, essentially property and financial assets. This year it affects all those with assets of more than FFr4.7m ($771,000) and is applied on a sliding scale up to 1.5 per cent of total value.

Only 174,726 persons fall within the ISF net, providing annual receipts to the treasury of FFr10bn.

But the left's ire was roused when it emerged earlier this year that France's richest man, the financier François Pinault, had a low tax bill after exploiting a loophole permitting a write-off of a loan owed to one of his companies.

This prompted calls for such loopholes to be closed by broadening the scope of the wealth tax to include business investments.

There have also been renewed calls to include works of art in the annual wealth tax. Mr Pinault is the new owner of the London-based auctioneer Christies and is also a modern art collector.

Mr Jospin has made clear he intends to tread carefully between the conflicting demands of the left and the business community.

"The economy is growing again, jobs are being created and business is investing. One has to nurture this... This is what will guide me." he said.

Government officials point out that the wealth tax is an emotive issue but brings little in receipts. Any change is likely to be token, dressed up as tightening up on "tax evasion". If possible, the finance ministry would like to compensate with some sops to improve the investment climate.

The overall effect of the tax debate has been to tie the government's hands on a broader reform of France's complex system, which is still based on redistribution of wealth rather than wealth creation.

Reform is necessary because the government cannot tighten fiscal policy further, yet needs to have a strong revenue base, with the budget deficit still projected at 2.3 per cent of gross domestic product next year.

Bold talk by the finance ministry last year of a big shake-up has evaporated. Such a move would require a shift in the heavy reliance on high value-added tax rates, but there is no easy replacement for VAT.

It also would mean tackling the *taxe professionelle*, or TP.

This French invention is a tax applied to companies on the basis of their fixed assets and wages bill, whose receipts are handed out by the treasury to local authorities, who themselves have discretion in fixing rates.

The business community is hostile to the TP, which raises more than FFr150bn annually.

Companies say it penalises job creation and investment, while allowing local authorities too much discretion in fixing the rate.

The TP has become more controversial as French business is being obliged to introduce a 35-hour week as of 2000 under an incentive scheme that rewards job creation.

The wages bill accounts for 18 per cent of the TP contributions assessment for companies.

Austrian-born actor Arnold Schwarzenegger (centre) sits behind former Austrian president Kurt Waldheim (left) and his wife Elisabeth yesterday as he listens to the inauguration speech of re-elected Austrian president Thomas Klestil in Vienna's parliament. The former diplomat was sworn in to start his second six-year term in office. Reuters

Surprise left-right deal by Czech parties

By Robert Anderson in Prague and Kevin Done in London

The Czech Social Democrats, who emerged as the largest party in last month's general election, are expected to form a minority leftwing government after reaching a surprise deal with their main opponents, the rightwing Civic Democratic party (ODS), led by the former prime minister, Václav Klaus.

The agreement between Milos Zeman, leader of the Social Democrats, and Mr Klaus, formerly bitter rivals, opens the way for the first transfer of power and the first leftwing administration since the collapse of communism in 1989.

The executive committees of the two parties met yesterday to approve the deal, which hinges on ODS agreement not to bring down a Social Democratic government by initiating a vote of no confidence.

The two largest parties have acted in order to restore political stability after inconclusive elections last month and in 1996. The previous three-party, centre-right coalition government led by Mr Klaus collapsed last year over an ODS party funding scandal.

Mr Zeman will inform President Václav Havel today of the decision of the two party leaderships, and Mr Havel is expected to appoint him prime minister after parliament meets on July 15.

The Social Democrats will have only 74 seats in the 200-member parliament and will have to gain the support of some of the other four parties to pass any legislation.

The agreement follows two weeks of fruitless negotiations to form a majority government between Mr Zeman and two small centre-right parties, the Christian Democrats and the Freedom Union (US).

The alternative of a majority centre-right coalition led by Mr Klaus foundered because of personality conflicts and the commitments both sides demanded to prevent a repetition of the collapse of the last government.

In return for allowing the Social Democrats to form a government, the ODS is expected to demand the post of speaker in the lower house, which will probably be filled by Mr Klaus, as well as the chairmanship of several key parliamentary committees.

The ODS fought the election on a platform of resisting a return to socialism, but the creation of a minority Social Democrat (CSSD) government will still leave it in a strong position.

"Mr Klaus will have the CSSD under control," said Jiri Pehe, Mr Havel's political adviser. "It will be swimming in the sea of problems he created. He can bring it down and ride back on a white horse."

The Social Democrats and the ODS have agreed to set up a team of legal experts to examine constitutional changes affecting both the electoral system and the powers of the president.

Mr Havel has been frozen out of the latest negotiations by the two parties and is known to be unhappy about the prospect of a minority single-party administration as well as possible changes to the constitution.

Pollution curbs on new power plants to be tighter

By Michael Smith in Brussels

Pollution controls on new power plants are to be tightened at a cost of about Ecu2bn ($2.2bn) over 10 years, under proposals unveiled by the European Commission yesterday.

The plan to halve permissible emissions of sulphur dioxide, nitrogen oxides and dust from each new power station from the year 2000 is part of a European Union strategy aimed at cutting acid rain and improving air quality.

European Union member states have approved in principle proposals for cutting the sulphur content of liquid fuels. The Commission, the EU's executive, plans early next year to suggest ceilings for a range of air pollutants for each country.

Yesterday's proposals cover "large combustion plants" with a thermal input of more than 50MW. About 2,000 such plants are in operation in the EU, including 500 electricity generation plants and 1,500 industrial generation units.

The Commission said that, as most have a lifetime of 30-40 years, the effect of its proposals would be cumulative. They would also bring emission of nitrogen oxides from gas turbines under the scope of EU controls for the first time.

Nitrogen oxides contribute to ground-level ozone, endangering health particularly in densely populated areas where strong sunlight is common. The use of gas for generation is growing fast.

The cost of measures to cut nitrogen oxide emission from gas plants is put at about Ecu1,200m over 10 years, and that for reducing sulphur dioxide, nitrogen oxides and dust from other generating plants at Ecu800m.

The Commission says this is considerably less than benefits in terms of human health.

Under the proposals, permissible emissions of pollutants would vary according to the size of plants and fuel used. As an example, solid fuel power stations with a thermal input of more than 500MW will have to cut sulphur dioxide emissions to 200 milligrams per normal cubic metre, against the existing 400mg.

The Commission also aims to encourage the building of combined heat and power (CHP) plants by requiring developers to investigate the possibilities for CHP before being given authority to go ahead with a project.

CHP plants providing electricity as well as heat for local use allow more than 80 per cent of a fuel's potential energy to be used, compared with between 35 to 40 per cent for traditional power plants.

More CHP would cut emissions of carbon dioxide.

The proposals also encourage use of environmentally friendly vegetable biomass as a fuel.

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YUGOSLAVIA CRISIS CONTACT GROUP TO SEEK SECURITY COUNCIL BACKING

Plan for UN action on Kosovo

By Peter Norman and Tobias Buck in Bonn and David Buchan in Sarajevo

The six-nation Contact Group, which is seeking a settlement of the Kosovo crisis, yesterday took the first step towards a United Nations Security Council resolution to enforce peace in the Serbian province.

A statement issued after 12 hours of talks among political directors from Germany, the US, Russia, Britain, France, and Italy said the group would pursue a UN resolution setting the conditions for a peaceful solution in Kosovo.

"Should the required steps not be taken, the Contact Group will consider further action under the UN charter, including action that may require the authorisation of a UN Security Council resolution," it said.

Wolfgang Ischinger of Germany, who chaired yesterday's meeting near Bonn, said the international community needed "a new approach" to the crisis because of intensifying guerrilla activities by the ethic Albanians' Kosovo Liberation Army.

The German government is particularly concerned by the latest developments because they have triggered an influx of refugees. Klaus Kinkel, the foreign minister, said a record 2,800 asylum-seekers arrived from Kosovo last month. This was more than one-third of all refugees in June.

The UN resolution would urge the Kosovo Albanian side to commit themselves to peaceful dialogue and would seek guarantees for the safety of international observers in the region.

In Sarajevo, Carlos Westendorp, the international community's High Representative in Sarajevo, warned yesterday that if the conflict grew worse, it would increase tensions between Serbs and Moslems in nearby Bosnia.

In an interview with the FT, he also said it might encourage Nato to switch its attention and forces from Bosnia to Kosovo. "I am very worried about the situation in Kosovo because it could degenerate into a conflict of sufficient intensity to destabilise the whole of the Balkans, even of Europe."

He said the Kosovo conflict was already "accentuating Bosnia fatigue" on the part of Nato governments, which were now talking of starting to run down their forces after September's elections in Bosnia.

The mandate of the 35,000-strong Stabilisation Force (Sfor) has just been formally renewed without any set departure date.

Mr Westendorp said he could spare some of Sfor's tanks and heavy equipment, if Nato ever wanted to deploy ground forces in Kosovo, because the main security need in Bosnia was now for lightly-armed riot police to protect returning refugees.

NEWS DIGEST

ITALIAN POLITICS

Berlusconi allies attack bribe court verdict

Silvio Berlusconi assured his political allies yesterday that he would continue to lead the conservative opposition despite receiving a second conviction for corruption.

Mr Berlusconi's opposition partners rushed to his defence, criticising the verdict by the Milan court on Tuesday as politically motivated. "All of this puts into question one of the fundamental principles of law: that justice is the same for all," said Gianfranco Fini, leader of the rightwing National Alliance party.

The former prime minister was given a prison term of two years and nine months for bribing tax inspectors to obtain favourable audits of his Fininvest media and retail holding company. However, it is unlikely Mr Berlusconi will go to jail, because in Italy sentences under three years are eligible for suspension.

"I will continue along my path," the AGI news agency quoted Mr Berlusconi as telling senators from his Forza Italia party. "I am sorry for what is happening."

Mr Berlusconi, who says he is a victim of a vendetta by Milan prosecutors, was convicted of fraud in December in connection with a 1987 film company deal. **AP, Rome**

GERMAN BUDGET

Waigel upbeat on growth

The economic crisis in Asia should have no adverse impact on forecast levels of growth in Germany, which is likely to be near 3 per cent this year and strong in 1999, Theo Waigel, the finance minister, said yesterday.

Speaking after the German cabinet unanimously approved his draft federal budget for next year, an upbeat Mr Waigel said it was possible that federal tax revenues would grow by more than the forecast 8 per cent to DM364.8bn ($202bn) in 1999, creating scope to reduce borrowing and lower taxes.

In addition to details made known earlier this week, Mr Waigel disclosed that Deutsche Post, the German postal service, would be privatised in 2000.

The budget, which envisages a 0.4 per cent rise in federal spending to DM465.3bn next year, will be debated in the Bundestag, the lower house of parliament, in the first week of September, though it cannot become law before the general election on September 27. **Peter Norman, Bonn**

CYPRUS MISSILES

Turkish army chief visits

Turkey's top general will visit the breakaway Turkish Cypriot state tomorrow to assess military options if Greek Cypriots deploy missiles. Turkey says Greek Cypriot plans to acquire Russian S-300 anti-aircraft missiles would give them the capability to strike aircraft flying over southern Turkey.

General Ismail Hakki Karadayi, chief of the Turkish general staff, is scheduled to inspect the 30,000-strong Turkish forces on the island and discuss countermeasures against the deployment of the missiles, according to a Turkish television station.

Russian and Greek officials announced last week that the missile systems, originally scheduled for delivery this summer, would not arrive before November.

US and European officials have been pressing Cyprus to cancel the $375m purchase, saying it needlessly increases tension on the island. **AP, Ankara**

ALBANIAN POLITICS

Berisha walks out again

The Albanian Democratic party, led by former president Sali Berisha, is to resume its boycott of parliament in protest at what it claims is violence and corruption within the Socialist-led government.

The move coincided with the approval by parliament of a report blaming the former Berisha government for Albania's descent into anarchy in early 1997 after the collapse of a series of fraudulent pyramid investment schemes. It accused Mr Berisha and other senior officials of having violated the constitution and using the police and army unlawfully against protesters.

Some 2,000 people were killed in several months of violence last year, while up to 1m weapons were looted from army barracks. The Democrats left parliament last September after one of their members was shot and wounded inside parliament by a Socialist MP. **Reuters, Tirana**

GERMAN IMMIGRATION

'Foreigners must learn German'

Chancellor Helmut Kohl's Bavarian allies, the Christian Social Union, said yesterday that foreigners should be required to learn German before they settle in Germany.

Mr Kohl's coalition of Christian Democrats, the CSU and Free Democrats tightened Germany's asylum laws last month, cutting welfare payments to asylum-seekers deemed to be abusing the system. Human rights groups condemned the move as electioneering before national voting on September 27, but the CSU says it wants an even tighter policy towards foreigners.

Michael Glos, CSU leader in the Bavarian state assembly, told a party meeting in the Bavarian monastery of Kloster Banz that foreigners had a vital part to play in fostering integration. "They must also be positive towards integration and that includes learning the German language and using it everywhere," he said.

Half of all refugees in the EU are registered in Germany, which offers substantially more generous welfare provisions to asylum-seekers than other countries.

About 7m foreigners live in Germany. Many are the families of so-called *Gastarbeiter*, or guestworkers, who found work in the 1950s and 1960s, as well as asylum-seekers and political exiles. **Reuters, Kloster Banz**

AUSTRIAN UTILITIES

Electricity to be liberalised

Austria's parliament has passed a controversial bill to liberalise the country's electricity market, but the debate is not over and legal challenges could follow, experts said yesterday.

The bill foresees a phased introduction of competition from February 1999 for big companies and distributors, while protecting small customers from price rises. It was adopted by the lower house late on Tuesday.

In order to comply with European Union rules, all companies using more than 40,000MW/hours a year will have a free choice of supplier at home or abroad. But existing long-term supply contracts between the national grid operator Verbund, which generates over half Austria's electricity, and regional utilities will be protected until 2003.

The issues of investments no longer viable in an open market and tariffs which can be charged for access to the grid have been removed from the bill and will be dealt with separately by the economics ministry.

The government has said its proposals will result in just under 30 per cent of the market being opened to competition from February 19, above the minimum EU requirement of 25.4 per cent. **Reuters, Vienna**

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WAITING FOR THE IMF FEARS GROW THAT CENTRAL BANK MAY RUN OUT OF HARD CURRENCY RESERVES

Russia's crisis hits treasury bills

By John Thornhill in Moscow

Russia's treasury bill market almost dried up yesterday after the government was forced to accept annualised yields in excess of 100 per cent on a 45-day bond issue and had to tap into reserves to meet redemption payments.

The lack of liquidity in the domestic debt market underscored the severity of the government's short-term funding crisis and intensified the pressure on the International Monetary Fund to provide rapid financial support to Russia.

Jonathan Hoffman, east European economist at Credit Suisse First Boston, the international investment bank, said the markets desperately needed a "catalyst" to revive confidence which could only be provided by an IMF-led support loan.

"At the start of 1990 Poland was given a currency stabilisation fund of $1bn which sat in the vaults of the Federal Reserve bank in New York and was never touched. Russia needs something similar to restore confidence," he said.

Although the IMF said this week it had reached broad agreement with the Russian government over an additional loan, investors worry that the central bank may run out of hard currency reserves before a financing package is put in place.

Oleg Vyugin, deputy finance minister, said yesterday that the IMF board would consider approving additional support only at the end of July or beginning of August.

The IMF is insistent that parliament must approve the bulk of the government's "anti-crisis" package before its members break for their summer recess on July 16.

Vladimir Ryzhkov, first deputy speaker of the lower house of parliament, predicted that such support would be forthcoming next week.

He said parliament had already considered 12 of the government's 21 laws to raise additional taxes and approved nine of them. "I am quite *optimistic. Most of* the laws will be supported by the Duma [the lower house]," he said.

But the political temperature in Moscow has been reaching feverish levels as some of President Boris Yeltsin's opponents seek to exploit the crisis and newspapers openly speculate about the prospects of an early dissolution of parliament or even a coup.

Grigory Yavlinsky, leader of the liberal Yabloko party, said the current situation in Russia was reminiscent of 1991 when hardline Communists staged a coup against Mikhail Gorbachev, the then president of the Soviet Union.

"The situation is absolutely similar to 1991," *Mr Yavlinsky told Reuters.* "No one is in control in the country. Its debt is too big and cannot be serviced."

Other political leaders have urged Mr Yeltsin to rally the country around him.

Alexander Lebed, the recently elected governor of Krasnoyarsk who harbours ambitions to succeed Mr Yeltsin as president in 2000, called for all political forces to unite during the time of crisis.

"If it is a question of a systemic crisis, and everyone already recognises that it is, then it is a question of the consolidation of the nation, of all political forces," he told the newspaper Kommersant. "And the father of the *nation, the president, should* start the consolidation."

Russian defence industry workers, supported by Communist party members, join a protest outside Moscow's Bolshoi Theatre over unpaid wages Reuters

Rosneft sale's second failure casts shadow over privatisation programme

Without the $1.6bn expected from the oil sell-off, there is little chance of the government meeting its revenue target for 1998, **Charles Clover** reports from Moscow

The planned sale of Rosneft, the last large state-owned chunk of Russia's oil industry, appears to have failed even before it started, after the two consortia which were the most likely buyers announced they would not bid.

It is the second failure to sell Rosneft in two months, even though the price for the 75 per cent plus one share stake was cut from $2.1bn to $1.6bn in June.

Both Royal Dutch/Shell and British Petroleum, which would have been the two chief financiers of the two rival consortia, said that low oil prices were behind their decision to withdraw from the privatisation auction.

But the Russian press has speculated that Shell pulled out of the tender to punish the Russian government for trying to extract higher taxes from Gazprom, Shell's consortium partner. They have also suggested that fears about Russia's political stability may have played a part.

Shell's Moscow representative, Grant Bowie, said yesterday that the scandal surrounding Gazprom had not affected Shell's decision to withdraw.

In any event, the second failure of the tender is a severe blow to the prestige of Russia's privatisation programme, which enjoyed some notable successes last year, culminating in the $1.88bn sale of a quarter of Svyazinvest, a state telecommunications company.

It is a blow above all for Russia's budget, which had counted on $5bn-$6bn in pri*vatisation receipts for 1998,* more than 10 per cent of overall budget revenues. Without the $1.6bn from the sale of Rosneft, that target appears out of bounds.

In tough fiscal times, the Russian government has often turned to privatisation as a source of revenues. The the 1995 fire sale of some of the most valuable assets of the Russian government was the product of similarly tight finances, caused by the costs of the war in Chechnya.

With hard currency reserves being depleted at the rate of hundreds of millions of dollars a day to defend the rouble, the government is once again hoping to raise some quick cash by selling state assets.

But offering Rosneft at a *lower price seems out of the* question. "Having taken the price down from $2.1bn to $1.6bn, they can't now turn around and offer Rosneft at $1bn. That would just damage every other privatisation," said Stephen O'Sullivan, head of oil and gas research at United Financial Group, the Moscow-based stockbrokers.

With hard currency reserves being depleted to defend the rouble, the government is again hoping to raise cash by selling state assets

Other options for privatising Rosneft are to sell the *company in smaller chunks,* such as 25 per cent stakes, or break it up and sell it asset by asset.

According to Mr O'Sullivan, selling smaller equity packages of Rosneft would probably attract less revenue than the 75 per cent plus one share controlling stake, because the state would surrender the premium that investors would be willing to pay to control the company's *board of directors.*

Breaking up the company and selling its assets would be a more profitable strategy, he said.

The prime asset of Rosneft is Purneftegas, located in west Siberia, which accounts for most of Rosneft's production. It has the youngest oil reserves and lowest extraction costs of any west Siberian producer, according to the securities firm Centreinvest Group.

Sakhalinmorneftegas, located on Sakhalin island, may be particularly desirable to western companies, many of which are exploring for oil in the far east.

The government is also hoping to follow up the success of the Svyazinvest sale last year by offering another *stake of almost* 25 per cent in that company, possibly as early as September.

An appraisal in January put a value of $1.4bn on the stake, but the stock market has dropped by 50 per cent since then. "The original valuation would certainly be optimistic now," said Brian Coleman, a telecommunications analyst at Aton Securities, the Russian brokerage in Moscow.

On Tuesday, the board of directors of Svyazinvest decided to spruce up the company by asking the gov*ernment for a licence to offer* GSM cellular telephone service nationally.

But according to Mr Coleman, the cellular licences would not be much of a revenue-earner *for Svyazinvest.* "The juiciest part of the cellular market, that is, Moscow and the other major cities, has been carved up already," he said.

Moscow rebukes Kiev over praise for Nato

By Charles Clover in Moscow

Russia has rebuked Boris Tarasyuk, Ukraine's foreign minister, for describing Nato's eastward enlargement as "the expansion of a zone of security and stability in Europe".

Mr Tarasyuk's remarks, made on the eve of a visit to Kiev by Nato's secretary-general, Javier Solana, are the latest in a string of pro-Nato statements he has made since his appointment last April.

They highlight a subtle shift in Ukraine's foreign policy which is disturbing Russia and threatens a delicate *rapprochement* between the two neighbours.

In May, Mr Tarasyuk raised Russian hackles by saying that Nato expansion was in Ukraine's national interest. Russia has criticised Nato's decision to admit the Czech Republic, Hungary and Poland next year but is especially hostile to proposals to expand Nato into the former Soviet republics, which it considers a zone of special influence.

"Mr Tarasyuk's comments have spoiled the air," said a senior Russian official.

Ukraine spent more than three centuries under Moscow's domination as part of the Russian empire and later the Soviet Union before achieving independence in 1991. Since then it has had a rocky relationship with Russia, which it suspects of seeking to force Ukraine back into another empire.

But the chill in relations began to thaw in May 1997, with the signing of a friendship accord in which Russia recognised Ukraine's independence within its present borders. The thaw culminated in February with the signing of a 10-year economic agreement.

After Mr Tarasyuk's comments in May, the Russian parliament refused to consider ratifying the friendship treaty until it received clarification from the Ukrainian foreign ministry of its stance on Nato enlargement. In response, the Ukrainian parliament has refused to ratify the economic agreement with Russia.

Yevgeny Primakov, the Russian foreign minister, reiterated Moscow's position that it is categorically opposed to Ukraine and the Baltic states joining Nato.

Last July, Nato declared that it would consider applications for membership from any country, under an "open door policy" for new prospective members. *It said:* "No third country has a veto."

Mr Tarasyuk has previously said that Ukraine will not seek Nato membership at present.

DUTCH COALITION FOREIGN MINISTER TO RETIRE FROM POLITICS

Van Mierlo joins government 'exodus'

By Gordon Cramb in Amsterdam

Hans van Mierlo will not return as foreign minister in the Dutch government being formed after a general elec*tion two months ago, joining* an exodus which threatens to leave the cabinet thin on expertise in international affairs.

His retirement from politics, announced yesterday, follows a decision by Hans Wijers, his colleague in the centrist D66 party, not to seek another term at the economic affairs ministry.

Frits Bolkestein, parliamentary leader of the free-market VVD party, meanwhile made clear this week that he would not seek a ministerial post.

Wim Kok, prime minister since 1994 in a government widely praised for its economic achievements, is seeking to regroup the coalition with his social democratic PvdA party.

Talks made progress this week, with outline agree*ment on spending* plans for the next four years.

Still to be resolved are questions on infrastructure such as the expansion of Amsterdam's Schiphol airport, and the distribution of cabinet slots. That carve-up has been complicated by a change in electoral arithmetic.

While the parties of Mr Kok and Mr Bolkestein made gains at the May 6 polls, D66 *lost 10 of its 24 seats* in the 150-strong lower house.

Van Mierlo: 'bridge-builder'

This meant that the party which Mr van Mierlo cofounded could no longer justify the four cabinet posts it held in the previous term. D66 negotiators decided to press for three portfolios, including home affairs and health.

In doing so, they surrendered their claim to a foreign ministry at which Mr van Mierlo had been willing to stay. But the minister, who turns 67 next month, said he was too old to learn another cabinet job.

Hans van den Broek, the Dutch European Commissioner, said: "The Netherlands is losing a charming and outstanding politician. Van Mierlo was known in Europe as a bridge-builder precisely because he was not a polarised politician."

With Mr Kok as premier and D66 in the interior ministry, the VVD may be able to stake an entitlement to the foreign ministry as well as retaining finance, where Gerrit Zalm is regarded as among the few fixtures in the awaited line-up.

The decision by the combative Mr Bolkestein not to seek such a post will be greeted with relief both among foreign ministry offi*cials and in Brussels, where* he is happy to be viewed as a Eurosceptic.

VVD candidates for the job may include Hans Dijkstal, who would have to vacate the interior ministry to give D66 its way, and Michiel Patijn, who served as Mr van Mierlo's deputy.

Any VVD holder of the job is likely to press more strongly for a reshaping of EU finances to ease the burden on the Netherlands, in recent years a net contributor.

The domestic financial accord reached among the parties this week foresees a reduction in the budget deficit from a current 1.5 per cent of gross domestic product to 1.2 per cent by 2002, rather than its elimination as the VVD had sought.

Only Fl 2bn ($1bn) will go to cut the deficit, out of a *total Fl 16.5bn* in extra resources available.

Most of the rest is destined for tax cuts and social programmes. The cabinet is expected to be formed by early next month.

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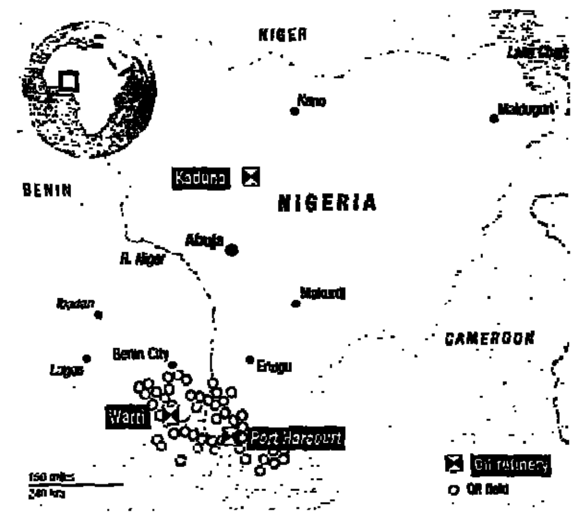
NIGERIA IN TURMOIL TENSE DAYS LIE AHEAD AS ETHNIC RAGE RUNS HIGH

Abiola death brings closer the nightmare of break-up



By Michael Holman and Michela Wrong

As the former minister and member of Nigeria's northern elite warmed to his theme over lunch, he cleared his place, took pen and pad from his briefcase and sketched his vision of his country's future.

The map was rough but the intent was clear – it represented the break-up of Nigeria.

Within the curve of the Niger river, embracing the south, was what he called "Yorubaland", dominated by cocoa producers and boasting the country's commercial capital Lagos. "Let them have it," he snorted.

The rest would remain Nigeria, stretching from the riverbank to Kano in the north, through to Enugu in the heartland of the Igbo people and down to Port Harcourt in the south-east, centre of the oilfields that pump out more than 2m barrels a day and home to a collection of minority tribes he was confident could be co-opted.

Outlined in the early 1990s, this scenario has long represented every western government's worst nightmare. The break-up of Africa's most populous state and the region's policeman would be an event far-reaching in its possible consequences.

With feelings running high among an enraged southern community, it has undoubtedly been brought closer by Chief Moshood Abiola's death. But at the same time that sudden demise, by removing the man Yorubas insisted was the rightful president, presents an opportunity, putting an end to what seemed certain to be divisive squabbles over the conditions of his release.

"Abiola's death has solved one problem: the question of whether he would have fitted into a government of national unity," said a leading southerner. "But it has opened up another one, as the hostility and bitterness boiling up could spill over."

The mutual dislike, verging on loathing, between the Moslem-dominated Hausa-Fulani north and mainly Christian Yoruba south predates Nigeria's 1960 independence. Indeed it was fostered under British divide-and-rule colonial principle.

Yet in spite of the strains, Nigeria held together. A federal constitution which devolved power to an ever-increasing number of states, all of which were entitled to a share in the country's oil revenue, was partly responsible.

Unity was also assisted by the so-called "federal concept", in which government appointments in the civil service, the state-owned sector and the cabinet reflected the country's ethnic diversity.

And the risks of secession had been seared into the nation's memory by the Biafran war of the 1960s, eastern Nigeria's breakaway attempt, a conflict in which up to 1m people died.

> **'We owe this chance for democracy to an act of God, not the Nigerian people'**

Since that impromptu lunchtime presentation, much has occurred in northern politics to both test and strengthen those ties. If the late General Sani Abacha's rule strained relations with the Yoruba, it also helped destroy northern hegemony. His autocratic style and blatant favouritism antagonised not only army officers but provoked unprecedented public opposition from northern academics and traditional leaders.

Few events proved more damaging than the 1997 death in detention of General Shehu Yar-adua, a retired pillar of the northern establishment. Far from protecting northern interests, Gen Abacha was seen increasingly as a threat. Significantly, the candidate who emerged as a last-minute challenger to his presidential candidacy – former police chief Mohammed Yusufu – was a prominent northerner.

In spite of the retaliatory violence in Lagos, Ibadan and Abeokuta that followed Chief Abiola's death, it falls well short of the tit-for-tat ethnic killings seen in the run-up to the Biafran civil war.

Diplomats in Abuja say everything depends on how General Abdulsalam Abubakar weathers the next few days. The man struggling to steer Nigeria safely past the deaths of the country's two most important players must convince the population that he is serious about a handover to civilian rule, even if he extends the October 1 deadline to breathe new life into the parody of a democratic system established by his predecessor.

"A lot rests on how the burial of Chief Abiola is handled," said a Lagos businessman. "If there is adequate policing without being too obstructive, it will be a good sign. If the military uses the heavy-handed tactics of the past, it'll be a sign we are returning to Abacha's repressive style."

Gen Abubakar still has some room for manoeuvre. While no one rules out protest strikes in the oil sector, the country's fractious opposition has always appeared to count more on western pressure than their own activities to effect political change.

A leading National Democratic Coalition member yesterday revealed to what extent his movement was floundering following Chief Abiola's sudden demise.

"There is nobody else," said Professor Bolaji Akinyemi. "This is not to say that Nigeria is not full of eminent, capable, credible personalities with lots of experience, but Chief Abiola was the only one who had the democratic legitimacy... I don't know what we will do."

Above all, as one southern resident put it yesterday, Nigeria is no Indonesia. "None of what is happening this week is the result of opposition pressure on Abacha. If he had lived he would probably have got his own way. We owe this chance for democracy to an act of God, not the Nigerian people."

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Children suffer lack of birth certificates

By Frances Williams in Geneva

One child in three is not registered at birth, leaving them without proof of identity or age that may deny them education, healthcare and even nationality, the United Nations Childrens' Fund (Unicef) said yesterday.

In its annual report on the Progress of Nations, which assesses how countries are faring in improving child welfare, Unicef says an estimated 40m babies a year go unregistered, most of them in Africa and Asia.

Carol Bellamy, Unicef's director, said lack of a birth certificate put children at risk, especially if they became migrants or refugees.

"Whether seeking health care or immunisation, entering school or proving one is too young for military service or to work in hazardous industries, a birth certificate is a necessity," she said.

According to Unicef, a birth certificate is required for vaccination in at least 20 countries and for treatment at health centres by more than 30 nations. In almost all countries a birth certificate is needed to enroll in school.

Often the reasons for lack of registration are practical. Many developing countries lack the technical and professional infrastructure to ensure all births are recorded.

In China parents must register a child in the mother's home village, an obstacle for migrant parents that delays or prevents the registration of up to 10m children.

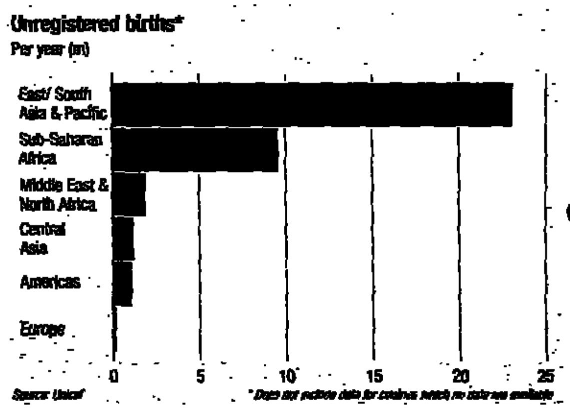
In other cases restrictive citizenship laws discourage or prevent registration of children of minorities such as gypsies in Croatia, Russians in Estonia and Latvia and non-nationals in many other countries.

Several, mostly Moslem, countries do not permit nationality to be acquired from the mother. When the father is missing or is not a citizen, this can lead to children being denied free schooling, healthcare and other services, Unicef says.

The report notes that the right to a name and a nationality from birth is enshrined in the UN Convention on the Rights of the Child, signed by all but two of the world's governments. Governments also need effective birth registration systems to plan public services, Unicef argues.

Elsewhere in the report, Unicef urges more funding for child immunisation programmes which could save up to 8m lives a year. The $700m a year cost would be equivalent to only 12 US cents per person a year – compared with the $139 a person spent on defence.

Unicef, 3 United Nations Plaza, New York, NY 10017, USA, email pubdoc@unicef.org or on http://www.unicef.org/pon98.



US 'ought not exclude Iran' from oil deals

By Stephen Fidler in Washington

US interests would be best served by giving Iran a stake in the development of energy resources in the Caspian Sea region and US policy should not exclude, as it does now, the possibility of routing a pipeline across that country, Zbigniew Brzezinski, former US national security adviser, said yesterday.

Mr Brzezinski, who headed President Jimmy Carter's National Security Council, said unless Iran and Russia were given a stake in the Caspian's energy development both "would try to pursue exclusionary policies in the region". This would disadvantage US interests and stability in the region.

"I would not exclude, and I know this is controversial, a pipeline from the region south," he told a hearing of a senate foreign relations subcommittee. It was in the US interest "to give Iran a stake" in energy development in the region.

Mr Brzezinski, who has acted as an emissary for President Bill Clinton in the region, said he agreed with US policy which seeks to ensure more than one pipeline from the Caspian. He said the best route would pass through Baku to the Turkish port of Ceyhan – but said it would not be the only option. Turkey is nearing the completion of a feasibility study of the Baku-Ceyhan route.

But at the same hearing, Clinton administration officials reiterated their opposition to the building of a pipeline from the Caspian south through Iran, in spite of a recent policy decision to try to develop more co-operative relations with Tehran. Marc Grossman, assistant secretary of state for European and Canadian affairs, said: "Iran is not only risky as a route for energy; it also keeps control of the region's energy reserves in fewer hands. We don't believe that that is in anyone's interest."

The US would examine carefully under the Iran-Libya Sanctions Act any new proposals to build such a pipeline "and take action appropriate to the circumstances," he said.

He said there were also strong commercial reasons not to use Iran as a transit route, including capital costs, the use of the Gulf, environmental, taxation and tariff issues.

Stephen Sestanovich, a special adviser on the new independent states to Madeleine Albright, the secretary of state, said the US "had no disagreement" with other countries in the region, which "are looking for excuses" not to route the oil through Iran because of the "independence that it offers them over the long term".

The officials said the idea of multiple pipelines from the Caspian included a so-called CPC line north to Russia, and said that support had been made clear to the Russians.

Three pipelines are under development: one to carry oil that is developed early from Baku though Russia; another also carrying early oil west from Baku through Georgia and the CPC line, from Kazakhstan. "The big question now is what major pipeline route comes next. We believe the right answer is to build pipelines along an east-west corridor," said Mr Sestanovich.

WORLD TRADE

US exporters win ruling in sanctions dispute

By Nancy Dunne in Washington

A US exporters' body yesterday won a court ruling in its battle to prevent individual states imposing economic sanctions against companies doing business with Burma.

A Massachusetts judge ruled that the National Foreign Trade Council can keep secret the names of companies it is representing.

The NFTC said the companies feared they would become targets of consumer boycotts.

The court will hear in September a case brought by the NFTC challenging sanctions against companies investing in Burma imposed by the state of Massachusetts. It is a test case that will set a precedent on the rights of state and local authorities to take sanctions against Swiss banks and companies embroiled in the dispute over Nazi gold.

The contentious Massachusetts law prevents companies investing in Burma winning state procurement contracts. Shortly after Massachusetts passed the law in 1996, Eastman Kodak, Apple Computer, Philips Electronics and other large corporations pulled out of Burma.

In a suit filed in April, the NFTC said the Massachusetts Burma Law directly intruded on the exclusive power of the national government to determine foreign policy, discriminated against companies engaged in foreign commerce.

Massachusetts will try to argue that the NFTC has no standing in the court, because it is not directly hurt by the Burma sanctions.

The EU has asked the court to be allowed to join the NFTC action, along with the US Chamber of Commerce and the Washington Legal Foundation, a conservative lawyers group. On the other side, is an ad hoc coalition of environmentalists, labour and citizen groups urging state attorney generals to monitor the case and argue for states' rights.

EU entry into the case, said Massachusetts representative Byron Rushing, the author of the Burma sanctions law, would be considered "an unfriendly act" which would evoke resentment among Massachusetts lawmakers.

"There is nothing more fundamental to state government than the spending of state money," said Douglas Steele, an activist on Burma. "If they can take that away then there is no state."

The case is reported to have split the Clinton administration with officials such as Stuart Eizenstat, under-secretary of state, urging support for the NFTC, and others warning that the administration must not come out against states' rights.

Coca-Cola claims it is winning the Mideast peace

The US soft drinks company has poured $400m into one of the world's most lucrative markets in recent years after being excluded for two decades by the Arab boycott. Now it claims to have ousted its bitter rival Pepsi as market leader. **Roula Khalaf** reports

Saudi Arabians kneel in prayer outside a mosque in Riyadh. Bans on alcohol make the region a dream market for soft drink companies AP

The Middle East peace process may be mired in one of its worst crises, but times are good for the Coca-Cola Company, which reaped enormous benefit from peace. Banned from many Arab countries for dealing with Israel, Coca-Cola found its way back into the region in the 1990s, as Arabs and Israelis talked peace and the Arab boycott eroded. Such has been its aggressive marketing that Coke is now claiming to be the market leader, a point hotly disputed by its rival, PepsiCo, which had the market all to itself for more than 20 years.

Until a few years ago, Coca-Cola could only be found in Morocco and Tunisia. So unknown was a Coke bottle that when the company went back to other Middle Eastern countries, it found it was being called "red Pepsi".

But $400m in investment can take you places. Starting with Oman in 1991, the year of the Madrid peace conference in which Israel agreed to return Arab land in return for peace, Coca-Cola gradually moved into the rest of the Gulf. In 1994, it bought back its Egyptian operation, which had been nationalised 20 years before, and $60m of investment was poured into Jordan and Lebanon.

To attract customers, Coca-Cola's marketing included introducing in the Gulf a 375ml and 400ml can for the price of a 330ml can and running promotions with McDonald's.

A hot climate and a religious ban on alcohol – especially in very strict Gulf countries – make the Middle East a dream market for soft drink makers.

The region's soft drink market has grown 50 per cent since 1991 and is expected to expand 85 per cent more by 2005.

Sandy Allan, head of Coca-Cola's Middle East and North Africa division, claims his company's market share now stands at 38 per cent for the region, ahead of Pepsi's. He says Coca-Cola has as much as 34 per cent of the Gulf market, though it has yet to overtake Pepsi there. His confidence is such that he estimates the company's share in the region will top 40 per cent by the end of this year, on the back of a more than 20 per cent volume growth in the first six months.

If the numbers appear amazing, no one is more surprised than Pepsi, where officials insist Coca-Cola is exaggerating its success. The numbers game partly rests on the two companies' different definitions of the region, as Pepsi does not include North Africa in its calculations.

Pepsi says it has a 73 per cent market share in the Middle East, compared to only 22 per cent for Coke.

"Coke's leadership claim is simply not true; even by their definition of the region we have an eight-point share lead and by our definition a 50-point share lead," says a spokesman. "We're continuing to grow our volume every year."

In any case, Pepsi is clearly in for a long fight. Coca-Cola is investing another $200m over the next four years.

And it appears undaunted by the fact that it has yet to turn a profit. "This is an investment in a long-term business and we are close to breaking even," says Mr Allan.

He also plays down the risk that politics and the stalemate in the peace process could complicate his business plans. "I'm in the soft drinks business, not politics, but I am not completely discouraged," says Mr Allan, of prospects for peace.

Indeed, Coke is set to make its own political statement about the peace process and buy itself some political insurance. In a recognition of Palestinian autonomy, the company is in advanced negotiations with a Palestinian partner to set up a bottling operation in the West Bank which will also provide soft drinks to Gaza, replacing an Israeli supplier.

$1.1bn oil contracts awarded

By Robert Corzine

Elf Aquitaine, the French oil group that operates the Girassol deep water oilfield off Angola, yesterday awarded development contracts totalling more than $1.1bn – boosting the exploitation of one of the most promising petroleum areas discovered in recent years.

The "Mar Profundo Girassol" joint venture formed by two French companies – Bouygues Offshore and EPTM – was awarded a $700m contract to build a giant floating production and storage barge that will be anchored over the Girassol field. It will be able to produce 200,000 barrels a day and store up to 2m barrels.

The vessel's hull will be built by Hyundai Heavy Industries in South Korea, but the "integrated deck" will be installed in France at Fos-sur-Mer.

A second joint venture, "Alto Mar Girassol" between Bouygues Offshore, EPTM and Stolt Comex Seaway, won a $410m contract to supply and install the flowlines and control umbilicals between the production vessel and individual wells. The latter will sit on the seabed in 1,350 metres of water.

Engineers say the deep water depths will test subsea technology to its limits. Investments of about $2.5bn will be needed to bring Girassol into production.

NEWS DIGEST

WTO REPORT

Hungary praised for resisting protectionism

Hungary is given high marks by the World Trade Organisation for its economic and trade reforms over the past decade in a report published yesterday.

The WTO secretariat praises the Hungarian government for largely resisting protectionist pressures at times of economic difficulty and says trade liberalisation has boosted economic performance. In particular, foreign participation has helped modernise Hungary's services sector, with banking, insurance and telecommunications among the fastest growing segments of the economy. Companies with foreign participation also account for 70 per cent of industrial exports. Rapid privatisation has raised the contribution of the private sector to about 75-80 per cent of gross domestic product, compared with 10 per cent a decade ago.

Meanwhile, Hungary's trade patterns have shifted markedly away from the former Soviet bloc towards the European Union and its partners in the Central European Free Trade Agreement. The WTO warns that, while joining the EU will mean further trade liberalisation, the EU's common agricultural policy could entail a more restrictive stance. Hungary's current support to agriculture is only about a quarter of the EU level. **Frances Williams, Geneva**

NORWEGIAN LOCOMOTIVES

Siemens contract turns sour

NSB, the Norwegian state railway operator, is demanding repayment with costs of a NKr300m ($39m) contract with Siemens of Germany for 11 diesel locomotives. The company claimed the rolling stock, delivered last year, contained fundamental design flaws. Osmund Ueland, NSB managing director, said it had sent Siemens an invoice for the contract value plus costs and threatened to sue for damages unless the sum was paid within a week. The German group's Norwegian subsidiary said the matter was with its lawyers. Norwegian reports said the D16 locomotives had been plagued by technical problems on their delivery to NSB, requiring some to be sent back to Germany for repairs. Only one had been in service in the past month. **Greg McIvor, Stockholm**

MOTOR INDUSTRY

VW plans Polish engine plant

Volkswagen is expected next month to announce plans to build an engine plant in Lower Silesia, southern Poland. Talks with the Polish authorities on setting up the plant in a special economic zone close to the German border have been under way for some months. VW is also expected to announce plans to take a 50 per cent stake in a seat factory at a neighbouring site. The engine factory has triggered fears of job losses at VW's Salzgitter works in northern Germany. Wages in Poland are about one eighth those for equivalent jobs at VW plants in Germany. However, the company said the new plant would concentrate on engine components requiring high labour content, leaving more capital-intensive work for Salzgitter. VW has gone further than most European carmakers in locating new facilities to benefit from lower wages in eastern Europe.

VW's Audi subsidiary sources most of its engines from Györ in Hungary, while more and more VW transmissions come from Bratislava, Slovakia. **Haig Simonian, London**

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Uncertainty on tax sends yen into dive

By Michiyo Nakamoto and Paul Abrahams in Tokyo

The yen fell sharply against the US dollar in late trading yesterday after Ryutaro Hashimoto, Japan's prime minister, yet again failed to commit himself to permanent cuts in income tax. The change in fiscal policy would be aimed at boosting the Japanese economy, which is in its worst recession since the second world war.

Mr Hashimoto, speaking at a press conference in Nagoya, promised an overhaul of the tax system, but failed to provide details or clarification. He said: "I want to make tax cuts from next year that the public would support as the result of a permanent reform of the tax system." Within minutes of Mr Hashimoto's comments the Japanese currency dropped from Y138.15 against the dollar to Y139.85.

However, he did say it would be inappropriate at the moment to broaden the tax base by lowering the minimum threshold for tax payers. This, he said, would be damaging ahead of this Sunday's upper house elections, which were likely to be very tough on his Liberal Democratic party.

The LDP has been performing badly in recent opinion polls, partly because of its poor handling of the economy. A poor LDP result in Sunday's elections could threaten Mr Hashimoto's position as prime minister. However, it remains unclear who would want his job, given Japan's recession and the unpopular reforms which must come.

The economy's dire state was underlined by yesterday's data on domestic wholesale prices, which fell 2.1 per cent in June compared with the same month last year. The fall threatens to undermine retail prices, which in turn could trigger a deflationary spiral. In such a spiral, consumers stop buying because they know goods will be available at cheaper prices in coming months. Companies are then left with stocks whose value is declining, forcing them to cut production and employment, undermining consumer confidence still further.

Mr Hashimoto has come under increasing domestic and international to kick-start the ailing economy by implementing cuts in corporate and income tax.

However, LDP leaders have publicly expressed doubts whether such a move would boost consumer confidence.

In recent days the LDP leadership has issued contradictory signals on fiscal policy. Some LDP officials have suggested permanent income tax cuts would be announced imminently. "This is clear deception. It is an election ploy," says Shingenori Okazaki, political analyst at SBC Warburg in Tokyo. "[Mr] Hashimoto cannot say there will be tax cuts before the LDP tax reform panel has convened and it has not done so yet.

"I don't think they will be able to reverse the [negative] trend against the LDP." Mr Okazaki says. "Voters know that [the LDP] is already debating which taxes to increase in order to make up for lost revenues."

Samuel Brittan, Page 12

China to allow TV cameras into court

By James Kynge in Beijing

China was to take a significant step this week toward making its opaque legal system more transparent with its first live television broadcast of a trial.

The decision to broadcast the trial followed US President Bill Clinton's visit to China last week during which Washington and Beijing agreed to co-operate to help forge a modern legal system for China.

The cameras are to be allowed into the Beijing first intermediate people's court to cover a copyright infringement case between two local companies. But although few viewers may watch the trial early on Saturday morning, the broadcast may set a precedent for more important cases, officials said.

Xiao Yang, president of the supreme people's court, called it an initiative to replace "darkroom trials" with "open trials". Legal officials said the move would make it more difficult for procedures to be violated, and judges to be corrupt.

The officials said that commercial cases had been deemed most suitable for open trials but it was not unthinkable that violent crime trials could be televised in the future.

Mr Clinton's visit highlighted bilateral co-operation to help replace what Beijing calls the "rule of man" with the "rule of law". Concrete steps included a fellowship for a Chinese judge at the Federal Judicial Centre and several other exchange programmes for lawyers.

There are signs that Jiang Zemin, China's president, regards the development of a more modern legal system as a priority. The irregularities and subjective judgments that are a feature of China's closed system have diminished the impact of the courts in tackling corruption, embezzlement of public funds, tax evasion and other economic crimes.

Courts are, however, increasingly being used by citizens to protect some civil liberties. The number of lawyers in China has risen from fewer than 2,000 in 1979 to about 100,000 today.

But efforts to make the courts more transparent and impartial ultimately bump up against a key conundrum – the fact that the interests of the Communist party are supposed to rank above everything. As the party and the government are virtually inseparable, official interests have a natural advantage before a case begins. A few cases, though, have gone against the government.

China may one day have to choose between the supremacy of the party and the independence of its courts, Chinese lawyers said. But that is likely to be a long way off, they added.

'FRONT BURNER ISSUE' ASIAN DEVELOPMENT BANK MAY SUSPEND OR CANCEL LOANS WHERE THERE IS EVIDENCE OF WRONGDOING

Asian bank unveils tough corruption policy

By Justin Marozzi in Manila

The Asian crisis intensified public scrutiny of crony capitalism. Now the region's leading development bank has put the issue at the top of its agenda after unveiling a tough new anti-corruption policy last week.

"We are serious and we mean business," says Linda Tsao Yang, US executive director of the Manila-based Asian Development Bank. "We want very specifically to link progress on anti-corruption to overall lending levels to a country, and within a country to a specific sector. It's now a front burner issue."

As a key lender to the region, the ADB has the potential to set the anti-corruption agenda. Last year, it approved $9.14bn in loans to Asian countries and expects to make a further $6.33bn this year.

Its $1.5bn loan to Indonesia, which was approved last month, includes what the bank calls "stringent auditing requirements as well as other measures to improve accountability and transparency".

These include a commitment by the Indonesian government to finalise by next month anti-corruption legislation to prevent money-laundering. The legislation must be acceptable to the ADB and implemented by February.

The teeth of the ADB's new policy are sharpest in its provisions for suspending or cancelling loans in cases where there is "credible evidence of corruption". Ms Yang describes the policy as an extension of the development bank's good governance policy, brainchild of Mitsuo Sato, the Japanese president of the ADB. The US was "strongly supportive" of the initiative, she says, but stresses the board's unanimous approval.

Senior Asian officials at the bank are more difficult to contact than Ms Yang. Executive directors from both Thailand and Indonesia, countries in which corruption is widely regarded as a problem, decline to comment.

But Jin-Gyu Park, Korea's executive director, admits corruption has become "a major issue, especially in international financial institutions".

Salvatore Schiavo-Campo, the bank's adviser for public sector management and reform, says the new policy has three basic elements. The ADB will assist countries to simplify their regulatory frameworks, including improving public sector management, fiscal transparency and civil service reform. It will assist governments that request help with anti-corruption programmes and, finally, it will ensure that bank staff adhere to the highest ethical standards.

To demonstrate the cost of corruption, Mr Schiavo-Campo cites the example of one unidentified east Asian country that lost about $2.5bn a year for 20 years, a level that exceeds its foreign debt of $41bn. In another country, state assets declined by $30bn in 10 years as a result of corrupt officials undervaluing them for sale to local and foreign investors in return for commissions. In several Asian countries, he says, corruption can add 20 to 100 per cent to the cost of goods and services.

Bank officials are quick to argue that corruption is not generic to Asia and say further progress must also be made in combating the supply side of the equation. Nor is the picture uniformly gloomy. The ADB praises Singapore and Hong Kong for putting in place a legal, policy and institutional framework to fight corruption.

As an example of reform of public sector agencies, the bank reports that the streamlining of the Philippine bureau of customs "significantly reduced the opportunity for corruption".

Although bank directors stress that the anti-corruption policy was conceived before the Asian crisis began, it represents an important step for the ADB, which has been criticised for failing to take a lead in dealing with the Asian crisis.

One caveat perhaps is that the ADB does not see itself as a policeman in dealing with corruption. The emphasis is on prevention.

How successful the new policy will be in dealing with an issue widely seen as a scourge of the region will be gauged when the ADB board reviews it in two years.

Economic costs of corruption
- Corruption can add 20-100% to government costs for goods and services in several Asian countries
- Corruption can cost governments up to 50% of tax revenues
- Losses due to corruption can total more than a country's foreign debt

ADB plans to attack corruption on several fronts
- Strengthen public institutions by making them more efficient, effective, accountable and transparent
- Press for increased market liberalisation and competition to break up monopolies and increase choices for consumers
- It will help governments that ask for anti-corruption assistance
- It will raise anti-corruption issues in country development discussions with governments as part of broader talks on sound development management
- It will ensure that its projects and staff adhere to the highest ethical standards

Source: ADB

BUDGET DEFICIT IMF AND WORLD BANK LOOK FOR ALTERNATIVE TO DEBT MORATORIUM

Struggle for Indonesia loans

By Gillian Tett in Tokyo and Sander Thoenes in Jakarta

The International Monetary Fund and World Bank are struggling to secure $6bn in new loans for Indonesia, raising concern that Jakarta may be forced to declare a debt moratorium to keep its budget deficit under control.

IMF and World Bank officials had hoped to present a loose agreement on the new loans, designed to help plug an expected budget deficit of 8.5 per cent of gross domestic product, when the IMF directors meet to approve release of an additional $1bn credit tranche for Indonesia in recognition of its progress in reforming the economy. The loans would then be approved by a meeting of Indonesia's donor nations on July 29 and 30.

"To make the programmes work, Indonesia needs money," one senior IMF official said yesterday. "But we are having problems getting this." The remarks contradicted optimistic statements by World Bank officials in Jakarta a day earlier but were confirmed by several diplomats.

Robert Neiss, IMF director for Asia Pacific, said last month that an alternative to outside funding of the budget deficit would be a rescheduling of about $8bn in sovereign debt. Japanese diplomats have said this would bring Japan's relatively generous loans to a grinding halt and endanger other credits.

Protesters outside a Jakarta bank they accuse of making illegal loans to relatives of former president Suharto. They are demanding that the family return its wealth. AP

But diplomats said the US and European countries are loathe to ask parliaments for specific approval of new money.

Earlier pledges of around $20bn from bilateral donors, in addition to $18bn offered by the IMF, World Bank and Asian Development Bank, were made only for purchases of the rupiah in the case of an attack on the currency. They were not to finance Indonesia's efforts to maintain political stability with large subsidies and social spending. The additional money is designed for this purpose.

World Bank officials were guarded about whether additional money would come from the US, where Congress has already delayed additional funding for the IMF. Unlike European countries, the US has pledged $3bn in bilateral backing that has yet to be given.

Although Japan has provided a large part of the support to Indonesia to date, it is reluctant to provide contributions unless this is matched by other countries as well. "We do not want to act alone," one Japanese official said.

Some Japanese officials have also become concerned in recent months that some of the food aid they have recently sent to Indonesia may have gone astray.

Jean-Michel Severino, vice-president for East Asia and the Pacific at the World Bank, said "the international community is very much aware of Indonesia's problem and they're willing to help. We are going to increase our financing to Indonesia quite a lot," he added, following the bank's disbursement of a $1bn loan for Indonesia on July 2. "But we also want some fair burden sharing."

Ruling party's divisions harden

By Sander Thoenes

Indonesia's ruling party gathers today to strip former President Suharto of his last powers and elect a chairman who may well pose a challenge to the new president, B.J. Habibie.

The extraordinary congress of Golkar, which won 74 per cent of votes in the last general elections in 1997 on the back of strong support from the powerful military and bureaucracy, is expected to reveal some odd bedfellows among the political alliances that are taking shape now that the party's founding father, Mr Suharto, is no longer in office.

The alliances bring together the children of Mr Suharto and the former president's enemies such as retired generals. All are keen to use the party to gain the upper hand in the next session of the legislative assembly, in which Golkar is the largest faction. The legislative assembly is expected to set the timetable for general and presidential elections and may vote to reaffirm or remove Mr Habibie from office.

Golkar, which was seen as the personal fiefdom of Mr Suharto, also has to reshape its image to survive what may be the first democratic elections in Indonesia since the 1950s.

"The people in Golkar want to survive, otherwise there will be no place for them in politics," said Eki Syachrudin, one of the party's founding members. "The military created Golkar. If Golkar vanishes, the military will also vanish from politics – especially the retired generals."

Analysts predict a behind-the-scenes struggle for the party's chairmanship. The battle will be between Edi Sudrajat, a former military commander who enjoys the support of the retired generals who dominate among Golkar's voting members and some of Mr Suharto's children, and Akbar Tanjung, a veteran party stalwart who is President B.J. Habibie's state secretary.

Both sides have tried to paint the other as reactionaries and lackeys of Mr Suharto. The former president, who is not thought to be interested in anything more than securing his family's business empire, is expected to allow for the abolition of his post of chairman of the board of patrons of Golkar. The board can veto many Golkar decisions.

Salim Said, a military analyst, said Mr Sudrajat and Mr Suharto's children would like to impeach Mr Habibie during the legislative assembly's special meeting in November, and install Try Sutrisno, former vice-president, in his place.

But Mr Tanjung's candidacy, which is supported by General Wiranto, the commander in chief of the army, and several respected former generals, is a strong one. It could prove as persuasive as the argument that Golkar risks obliteration in elections if it were ruled by a retired general closely associated with the old regime.

"If Edi Sudrajat wins it will be the end of Golkar," Mr Salim said. "They will win a battle but lose the war."

NEWS DIGEST

BID TO CUT TRADE DEFICIT

Extra incentives planned to help Indian exporters

India is planning a "priority package" of incentives for exporters after official figures showed a sharp fall in export earnings for the first two months of the current fiscal year and a 120 per cent jump in the trade deficit over the same period a year ago.

Yashwant Sinha and Ramakrishna Hegde, India's finance and commerce ministers, met this week to draw up a series of incentives, likely to include export finance concessions, aimed to arrest the fall in exports, particularly of cotton yarn, fabrics and garments, electronic goods and cut gemstones.

The moves follow official estimates showing exports for April and May at $4.99bn, down 7.54 per cent on earnings for the same period last year, with exports in May down fully 17 per cent on a year earlier at $2.36bn.

The fall in dollar earnings partly reflects a gradual depreciation of the rupee over the period, the Indian currency having lost 6 per cent against the US dollar since India's test nuclear explosions in May alone. Export growth in rupee terms, however, was a modest 3.4 per cent for the two-month period against a year earlier.

Imports for April-May rose 9.71 per cent to $6.85bn, leaving a trade deficit for the period up 120 per cent at $1.85bn over the same months last year. **Mark Nicholson, New Delhi**

MALAYSIAN SPENDING

Boost for high-tech project

Malaysia announced yesterday it would contribute M$600m (US$145m) towards the Multimedia Super Corridor (MSC), a project designed to attract international, high-tech research and development.

The funding appears to be part of a new expansionist policy aimed at warding off recession. Malaysia's economy contracted 1.8 per cent in the first quarter. In recent days, the administration has announced it will spend M$5bn reviving infrastructure projects and M$7bn on economic and social projects. Some phases of the MSC project have already been delayed.

But Mahathir Mohamad, the Malaysian prime minister, said the administration would help complete the foundations so it could begin attracting private investment. "The place is already there," he said. "All we have to do is put in some infrastructure." **Sheila McNulty, Kuala Lumpur**

HONG KONG

Corruption reports increase

Reports of corruption in Hong Kong increased sharply in the first half of this year, rising more than 20 per cent to 1,780 compared with the same period in 1997, the Independent Commission Against Corruption (ICAC) announced yesterday.

"The economic downturn has a direct bearing on the increase in reports," said the ICAC.

"Management and staff appeared to be much more prepared to report corruption in order to protect their own interests as profits dwindled."

Most corruption reports came from the private sector, which accounted for 909 cases. Building management, trading, finance and insurance were among sectors showing the biggest increases. Corruption reports against the police also showed a sharp increase. That followed a "bribes for promotion" investigation and a probe into alleged police protection of vice rackets.

In spite of the rise in cases, businessmen in Hong Kong say they have not seen a general deterioration in the business environment.

Before last year's transfer of sovereignty many feared political pressures would lead to an erosion of the rule of law and an increase in graft.

Hong Kong and international chambers of commerce, however, say the rule of law has remained intact and the business playing field remains level. **John Ridding, Hong Kong**

LEGAL NOTICES

$3.2bn deal on breast implants

By Richard Tomkins in New York

The long-running US battle over breast implant litigation ended yesterday with the announcement that Dow Corning, the US silicon products manufacturer, had agreed a deal with lawyers suing the company.

Dow Corning will pay out $3.2bn to compensate about 170,000 women in the US and worldwide who have made breast implant claims against the company.

If all the money went to the women, individual payments would average nearly $19,000 but a substantial portion of the $3.2bn – probably 25 per cent – will go to the lawyers who filed the claims.

Dow Corning, a joint venture between Dow Chemical and Corning, went into chapter 11 bankruptcy protection in May 1995 as the claims began to mount. Yesterday's settlement will form part of a reorganisation plan that will enable it to emerge, probably early next year.

The company stopped making breast implants in 1992, but remains one of the world's leading manufacturers of silicon-based products, including sealants and the material used in silicon chips. Last year, it made net profits of $237.6m on sales of $2.6bn.

Dow Corning's troubles began in the early 1980s when women fitted with its breast implants started suing the company, claiming that silicone gel had leaked into their bodies and caused auto-immune disorders.

Other suppliers of breast implants, including Bristol-Myers Squib, Baxter Healthcare and Minnesota Mining & Manufacturing, faced lawsuits, too. But Dow Corning was the biggest supplier, and faced the brunt of the litigation.

The smaller suppliers reached a settlement with claimants in 1995. Dow Corning, while strongly denying its implants caused auto-immune diseases, made three attempts to settle, all of which were rejected as inadequate by the claimant's lawyers.

Dow Corning's third offer, made in February, was worth $3bn. Women with claims would have received sums ranging from $1,000 for women without proof of injury to $200,000 for women suffering serious illness or disability. Yesterday's settlement, thrashed out by Francis McGovern, a federal mediator, slightly increases the total sum and speeds up the pay-outs, but details have yet to be worked out.

Women with claims against the company will be given the opportunity to vote on the settlement, and those who do not want to accept will be allowed to opt out and pursue their claims separately.

Brazil's fiscal position worsens

By Geoff Dyer in São Paulo

Brazil's fiscal position continued to deteriorate in April, increasing the vulnerability of Latin America's largest economy to the uncertainty facing emerging markets around the world.

The government announced yesterday that the nominal fiscal deficit, which includes interest payments, was 6.72 per cent of gross domestic product in the 12 months to the end of April, up from 6.5 per cent at the end of March.

The news follows mounting evidence the government has increased spending on a number of fronts in recent weeks in the run-up to October's general election. Economists believe that the budget deficit will rise to around 7 per cent of GDP over the next few months.

Brazil's high budget deficit, which is thwarting growth by requiring high interest rates to finance the shortfall and by diverting savings from the private sector, is viewed by economists as the principal threat to Brazil's economic stability.

Economists noted with relief that the primary budget deficit, which does not include interest payments, was stable at 0.81 per cent of GDP in the year to April, against 0.8 per cent at the end of March.

Unlike some other countries, Brazil's budget deficit includes figures for state and municipal governments and state-owned companies.

The deterioration in the fiscal picture this year has largely been the result of higher interest payments, following the doubling of interest rates in October to defend the currency. The figures have also been affected by state governments spending receipts from privatisations on public works.

In recent weeks the government has agreed to extend a controversial 28.9 per cent military pay rise to all federal employees and to revoke a planned 12 per cent cut in this year's federal budget announced earlier in the year.

Francisco Lopes, director for monetary policy at the Brazilian central bank, said the deficit was unlikely to improve until the end of the year, when the impact of the October interest rate hike would fade.

Odair Abate, chief economist at Lloyds Bank in São Paulo, said investors would tolerate the fiscal deterioration as long as the government looked likely to win a majority in the elections, allowing it to push through aggressive budget cuts, and as long as the crisis in other emerging markets such as Russia was contained.

John Welsh, economist at Paribas in New York, said investors had already discounted more bad news on the fiscal front and would only become concerned if there was not a significant improvement by early next year.

Gore tries to shed humourless image for presidential bid

Gerard Baker explains the hurdles facing the vice-president if he is to replace Clinton

It was a solemn moment. Last weekend, just before Americans got down to the serious business of celebrating the July 4 holiday, Vice-President Al Gore stepped on to the Mall, Washington's vast, memorial-studded green park, and began grilling hamburgers before a small crowd of cameramen.

The culinary demonstration was ostensibly intended to instruct the nation on the correct way to cook meat before they headed off for their barbecues for the great summer holiday.

But the spectacle was more symbolic than that. Leading the great annual cookout is usually the kind of thing a president does, but with Mr Clinton in China, the honour of wielding the presidential tongs fell to Mr Gore, proto-candidate for the presidency in 2000.

The occasion was the most visible sign of the accretion of responsibilities by Mr Gore as the election moves closer. With Mr Clinton absent for much of the last few weeks, the vice-president, in addition to his hamburger duties, has been busy. He visited fire-ravaged parts of Florida, chaired a national debate on the future of social security, and dispensed federal largesse for social programmes around the country.

And even with Mr Clinton safely back in the US, White House officials say, Mr Gore will now gradually step further into the limelight.

Mr Gore likes to make much of the claim that he has already played a more prominent role in the Clinton administration than any previous holder of his office. And most presidential observers agree that is probably true – his high profile in environment policy and in promoting information technology has given him more "real jobs" than most previous vice-presidents.

But Mr Gore and his advisers know the vice-presidency is still, in essence, a difficult job from which to project a public role. One incumbent described the experience as being "like a man in a cataleptic state. He cannot speak. He cannot move. He suffers no pain. And yet he is conscious of all that goes on around him."

But its principal advantage is still that it provides the most obvious springboard for a bid for the presidency itself. Of 10 vice-presidents since the second world war, six have subsequently won their party's nomination for the presidential election.

Mr Gore is the clear favourite to do the same in the Democratic party in 2000, but the eagerness of the Clinton White House to give Mr Gore a bigger role over the next two years reflects two concerns.

Gore has to grapple with image and policy weaknesses

First, Mr Clinton clearly sees Mr Gore as his principal hope of securing any kind of political legacy. The brand of moderate "New Democrat" policies espoused by the two men finds little support elsewhere among likely contenders for the nomination in 2000. Neither Richard Gephardt, the House minority leader, nor Sen John Kerry of Massachusetts nor Sen Bob Kerrey of Nebraska is likely to preserve Mr Clinton's desired place in history as effectively as Mr Gore.

Second, Mr Gore and Mr Clinton know that, even if he gets the nomination, winning that legacy will not be easy. For all his large lead over Democrat rivals in opinion polls , Mr Gore is vulnerable. For the first time, those same polls have begun to suggest that in a head to head with the leading Republican contender, Gov George W. Bush of Texas, the son of the former president, he could lose.

Though it is early days, Mr Gore needs urgently to raise his game.

Not only does he have an image problem – stand-up comedians still extract a disproportionate number of laughs from his image as a humourless techno-bore, obsessed with global warming and the information superhighway – he has a number of policy weaknesses too. Advisers say he plans to take on a much more mainstream role in economic policy – his adherence to environmental causes has left him vulnerable to the charge that he is anti-business and anti-growth. It is no accident, therefore, that for the past few months Mr Gore has been given the privilege of announcing the stream of impressive economic statistics pouring out from government agencies.

Intriguingly Mr Gore may also start to adopt a higher profile in foreign policy. The appointment last month as US representative to the United Nations of Richard Holbrooke, a Gore ally whom the vice-president had pushed unsuccessfully for secretary of state, was described by some in the administration as a sign the vice-president is being given greater significance in weightier personnel matters.

Mr Gore faces other challenges. Though he has not been directly hurt by the continuing allegations of wrongdoing by his boss over the Monica Lewinsky affair, he was wounded by last year's claims of campaign finance irregularities by both men in the 1996 campaign. The spectacle of Mr Gore squirming under pressure from reporters about his role in the alleged improprieties was unnerving for Gore supporters.

The sobering thought for Mr Gore is that the last six years may have been the easy part. As he gradually assumes the primary role in the Clinton-Gore partnership over the next two years, the job will certainly become more exciting, but more challenging too.

New Yorker's editor quits for Disney world

By Richard Waters and Laura Silber in New York

Tina Brown, the celebrated editor of The New Yorker magazine, yesterday abandoned her position at the heart of the New York literary and media world for a starring role in a new entertainment company backed by Walt Disney.

Her move puts an end to the speculation that has been rife all year that Ms Brown would call it quits after nearly six years at the helm of the magazine. While The New Yorker, published every second week, has shaken off its fusty image and expanded its circulation under her guidance, it remains a big money-loser for Si Newhouse, the secretive magnate who owns it.

Signs that he was trying to get to grips with its losses have become apparent in recent months as it has been merged more closely with Condé Nast, the Newhouse magazine group that includes such titles as Vogue and Vanity Fair.

Ms Brown's husband, Harold Evans, also recently cut his ties with Mr Newhouse when he resigned the position at Random House that had made him one of New York's most prominent book publishers. A former editor of The Times of London, Mr Evans has now returned to newspapers.

Like Mr Evans, Ms Brown will not be straying far from the New York media establishment. She is to become chairman of a new joint venture media company to be formed with backing from Miramax, a film company owned by Disney. It will produce movies, publish books and start a new monthly magazine of its own, according to the people behind it.

There is "a substantial audience for thoughtful, high-quality movies, books and television programming that is now under-served," Ms Brown said. She will be joined by Ray Galotti, formerly publisher of Vogue, who yesterday resigned from Condé Nast to become president of the new company.

Negotiators resume talks over strike at GM plants

By Nikki Tait in Chicago

Union and management yesterday resumed talks aimed at ending the two strikes in Flint, Michigan, which have crippled production at General Motors, the biggest car manufacturer in the US, amid signs the discussions were become more intense.

In recent days, GM executives have described recent negotiations as "more serious", and yesterday a GM spokesperson confirmed the company had been encouraged by the recent sessions. The length of the discussions was "where we want to be", GM said.

A union official in Flint also indicated there was modest progress in some areas, but stressed many issues remained unresolved. Neither side would speculate when a settlement might emerge.

The regular seasonal shutdown of GM's operations is due to end this week.

This has prompted some speculation that both sides would find it convenient to reach a deal by today – allowing time for ratification by rank and file members of the United Auto Workers unions and then the resumption of regular production early next week.

However, both GM and the UAW have the financial resources to sustain a lengthy stoppage, and settlement prospects could be complicated by the UAW's apparent desire to resolve issues looming at other plants in Ohio and Indiana.

The two Michigan strikes, at the Flint Metal Centre and the Flint East plant owned by Delphi, GM's auto parts arm, have caused the company to lay off over 160,000 employees in North America and Mexico. Last week, GM estimated that the dispute cost $1.18bn in the second quarter, the most expensive dispute it has weathered since the early 1970s. The GM shutdowns have also affected many of the carmaker's outside suppliers, forcing them, too, to lay off thousands of workers.

The key issues in the Flint strikes have centred around GM's desire for productivity improvements, and union's resistance to job losses, coupled with concern over workplace conditions. Around 9,200 employees are on strike at the stamping plant, which makes body parts like fenders, and the Delphi facility, which produces spark plugs and engine components.

STRONG POUND FEDERATION REPRESENTING 5,400 COMPANIES SAYS INDUSTRY IS UNDER 'SEVERE AND MOUNTING PRESSURE' AND WARNS OF JOB LOSSES

Engineering facing recession, say employers

By Peter Marsh in London

The engineering industry is heading for recession, with confidence at its lowest point since the early 1990s downturn, the Engineering Employers' Federation said yesterday.

In the latest in a series of gloomy reports from manufacturing, the federation warned of rising redundancies later this year as export and domestic orders dry up. Engineering is one of the largest parts of UK manufacturing, accounting for about a third of factory output and employing about 1.7m people.

Graham MacKenzie, the EEF's director general, warned the Bank of England, the UK central bank, against a further tightening in monetary policy, which he said said would hasten the decline. The Bank's monetary policy committee met yesterday to discuss bank base rates, now at 7.5 per cent, with a decision due today.

According to the federation, which represents 5,400 companies employing more than 800,000 people, the engineering industry is "under severe and mounting pressure" as a result of the large rise in sterling in the past 18 months, coupled with high borrowing costs.

The EEF's latest quarterly survey of 1,611 engineering companies, taken in May and June, showed that order books declined in the second quarter of the year.

More than two fifths of companies said orders were down on the previous three months, as against only 32 per cent saying they had increased. That gave a net, seasonally adjusted figure of 15 per cent which are experiencing a decline in orders, a big change from a comparable survey three months earlier which recorded a positive balance of 8 per cent experiencing an uplift in orders.

Export orders are declining even more steeply, according to the latest survey, while total output fell on a quarter-on-quarter basis for the first time since the previous recession ended in 1992. More companies are expecting to lay off people than employ them, for the first time since the EEF started the survey in 1994, while capital investment plans have also been reined in.

While pay settlements in engineering have recently been running below the level of retail price inflation, the EEF also gave details of sharper earnings pressures in some parts of the industry. This may reflect the impact of skills shortages as well as higher overtime and special bonus payments in those parts of engineering still experiencing fairly high demand. In the year to March, the latest figures available, average gross earnings in the sector rose by 5.7 per cent.

Telecoms watchdog aims to take the consumer's side

Alan Cane talks to David Edmonds, who has vowed to be tough on operators found guilty of anti-competitive behaviour

David Edmonds, the new head of the UK telecommunications watchdog, is meeting British Telecommunications executives next week for talks aimed at calming the stormy regulatory climate.

Changes in the regulatory regime are not on the cards. Mr Edmonds – director general of the Office of Telecommunications – makes clear that the interests of the consumer are his primary concern and he will take drastic action against operators guilty of anti-competitive behaviour.

The series of discussions with the former state-owned BT and other big companies are designed to promote co-operation rather than conflict as the UK embarks on the great adventure of convergence between telecoms, computing and content.

Mr Edmonds, who replaced Don Cruickshank three months ago, wants to balance his role as consumers' champion with the commercial ambitions of the operators.

"Given technological advances and the way in which companies like BT and Cable and Wireless act on the international stage, we owe it to them to try to create a relationship where they understand our role with absolute clarity," he says.

He has asked each operator to define how it expects to interact with Oftel over the next 18 months. The result should be a broader understanding on both sides and the opportunity to address problems before they erupt in public.

If, for example, BT was planning a new service, he would be able to satisfy himself in advance that the pricing was not predatory and the technology did not present unfair barriers to competition.

Mr Edmonds is aware of the dangers of such a relationship. First, that he could be accused of promoting "cosy" collaboration with the operators. Second, that early knowledge of a company's plans could expose him to complaints of "micro-management" of the business, a charge frequently levelled at his predecessor. He rejects both arguments. "In exchange for the ability to plan in greater security, BT may have to be more open about its plans," he says.

Fifty-four year old Mr Edmonds – whose enthusiasm for poetry found him pacing Oftel's corridors quoting the Rubaiyat of Omar Khayyam to mourn England's exit from the soccer World Cup – was not an obvious candidate for telecoms watchdog.

He graduated from Keele University in the English Midlands with a degree in political institutions and history. He was a senior official in the office of Michael Heseltine, former chief minister for the environment, before joining the Housing Corporation as chief executive, where he was one of the architects of the 1988 Housing Act. He is still chairman of Crisis, the national charity for the homeless.

Most recently he has been managing director of central services for National Westminster group. He left in October last year after transforming the group's business units from captive suppliers to competitive internal service departments. "Leaving was quite brave," he muses. "I didn't have a job to go to. I wasn't asked to leave. Far from it."

He had been harbouring an urge to return to the public sector, however, and says he knows how the government machine operates. He has experience of the relationship between ministers, their officials and Parliament – and about managing change.

Calling the shots: David Edmonds in a BT phone booth   Brendan Corr

Now he is set to change Oftel. "After three months, I'm much clearer about the way Oftel should be structured. It is rather rigid at present. We have 10 vertical divisions. Over the next month or so I intend to create a much more flexible and responsive organisation," he explains.

His tasks over the next year include the redrafting of every telecoms licence in the UK to satisfy European legislation. He is keen to see effective UK intervention in Brussels on communications policy and has chosen as a deputy Anne Lambert, a counsellor in the government's office in Brussels.

Foreign Office expected to be 'less stuffy'

Andrew Parker, Political Correspondent

Changes including the appointment of more women as ambassadors were needed to make the Foreign Office "less stuffy". Robin Cook, foreign secretary, said last night.

He insisted his department must become more representative of society. He wanted the diplomatic service to take more recruits from Britain's ethnic minorities. "A Foreign Office that better represented all the richness of modern Britain would be a strength to us in building bridges with countries of different cultures," he said.

In a speech to the parliamentary Labour party's foreign affairs committee last night, Mr Cook said steps had already been taken but more was required.

"A modernised Foreign Office that was more representative of today's Britain and more rewarding to its new recruits would be a more effective Foreign Office," he added.

"No organisation can allow itself to become complacent. And every public department needs to move with the times. To modernise the Foreign Office is not to criticise its past but to secure its future."

A spokesman for Mr Cook said that, now Britain's presidency of the European Union had ended, he could turn his attention to modernising his department. Mr Cook questioned whether there was enough interplay between it and the outside world. "We need to find ways of bringing more outsiders into the Foreign Office – at all levels."

He floated the idea of a fast-track promotion procedure. "Many of the most able and bright young people join the Foreign Office. Do we offer them fast enough promotion on merit? Can we do more to reduce the hierarchy of management and open up fast tracks for those who have most to offer?"

He also suggested there was not enough delegation. "The objective should be a Foreign Office that provides for innovation from the ground level, not just for decisions handed down from the top level," he explained.

Anthony Layden, chairman of the Diplomatic Service Association, which represents 90 per cent of senior management, welcomed Mr Cook's speech. "The DSA is strongly in favour of moves to broaden our appeal to different groups in the UK," he said.

N Ireland police report 400 attacks in four days

Financial Times Reporters

There have been more than 400 attacks on Northern Ireland security forces since the Protestant Orange Order was barred from part of a traditional parade route on Sunday, the region's police reported yesterday.

The attacks included 12 shootings and 25 bombings. Two police officers were injured on Tuesday night, bringing the total since Sunday to 44. Security forces have seized more than 1,000 petrol bombs this week.

Mo Mowlam, chief Northern Ireland minister in the UK government, yesterday appealed to the Orange Order to halt its attempts to stretch the resources of the security forces. "It is not enough to call for peaceful protest, if at the same time you are not abiding by the law," she said. Eight hundred extra British soldiers were flying to Northern Ireland yesterday.

Tony Blair, the UK prime minister, is to meet leaders of the order today as members maintain their protests next to barriers erected by the British army on Saturday to prevent the order's members from following their traditional parade route along the nationalist Garvaghy Road in Drumcree. They had been ordered off the road by the region's Parades Commission.

The prime minister will ask under what conditions the Orange Order will talk to the Garvaghy Road residents. The governments of the UK and Republic of Ireland believe such dialogue is the only way the impasse will be resolved.

Today in the region's High Court nationalist residents of the Lower Ormeau Road in Belfast, the Northern Ireland capital, are to seek leave to challenge the commission's ruling allowing the order to make its march along the road on Monday.

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N Ireland police report 400 attacks in four days

STRATEGIC DEFENCE REVIEW GOVERNMENT HIGHLIGHTS NEED FOR ABILITY TO INTERVENE QUICKLY IN REGIONAL CONFLICTS

Forces advance from Cold War positions

By Alexander Nicoll, Defence Correspondent

A much greater ability for British forces to take part in expeditionary warfare is the fundamental aim of the government's strategic defence review, published yesterday.

The assumption is that there is no significant external threat to Britain itself or to the Nato alliance.

The shift is described as radical by George Robertson, the chief defence minister. Defence experts believe it is a sensible reaction to post-Cold War uncertainties, with regional confrontations such as that in Kosovo threatening to turn into bigger conflicts which could threaten European security.

Britain had been evolving towards this approach – through deployments to Bosnia and missions in African countries – but by adapting the equipment and structures of the Cold War. The review represents an attempt to break decisively and develop a military doctrine for dealing with regional conflicts, peace support and humanitarian missions.

It does not mean significant departures from existing equipment programmes or drastic reassignment of troops from old-style to new-style tasks.

But it does mean restructuring and the addition of capabilities essential for rapid deployment.

The review says that in addition to meeting commitments such as those in Northern Ireland, the forces should be able to make deployments on the scale and duration of the Gulf War. Alternatively, they should be able to undertake a longer but smaller assignment, such as in Bosnia, and be able to deploy to a second crisis – though the two would not involve warfighting or last longer than six months simultaneously. The assumption is that the UK would almost always be operating in concert with allies.

The confrontation with Iraq this year came at a critical point in the review, showing the value of aircraft carriers if the use of air bases outside the UK could not be guaranteed.

The intent to purchase two new aircraft carriers, larger than the present Invincible class, is at the centre of the strategy for the future.

The carriers will have to go through a long design and procurement process in which revisions of policy cannot be ruled out and will not come into service for at least 14 years. But the intention to buy them preserves ships, aircraft and weapons necessary to defend a carrier battle group as well as to project power from it.

The most important stumbling block to deployability is lack of transport. The intention is to lease for the short-term four Boeing C-17 aircraft, which can carry a main battle tank. Competitive tenders will be held for this and for longer-term transport aircraft needs – the European Future Large Aircraft is described only as a "contender", considerably watering down the government's previous commitment to the project.

Also central to the new strategy is the enhancement by 2001 of the present Joint Rapid Deployment Force into expanded Joint Rapid Reaction Forces, pooling units from all three services.

Among these forces will be a new "air cavalry", putting the Parachute Brigade into the Airmobile Brigade which will be equipped with Apache attack helicopters and a combined Navy/Air Force fixed wing force – Joint Force 2000 – putting together the two services' Harrier aircraft.

Previous operations, especially in the Gulf, have been hampered by poor maintenance of equipment and difficulties in supplying the front line. These are being addressed partly by a sweeping reorganisation of logistics.

Nuclear missile readiness extended from minutes to days

The readiness of Trident submarines to fire nuclear missiles will be extended to a number of days from the few minutes' notice at which they could have been launched during the Cold War. The government has kept its pledge to retain the deterrent with one of four Vanguard-class submarines always on undersea patrol. But the number of available warheads will be "fewer than 200", and no more than 48 will be on a patrolling submarine. Previously, the announced ceilings were 300 and 96 respectively, though in practice the numbers are believed to have been smaller for some time.

The number of missile bodies will be kept to 58, cancelling a previous order for seven more. Figures were given yesterday for the first time on UK stocks of fissile materials. The government said the UK had 7.6 tonnes of plutonium, 21.9 tonnes of highly enriched uranium and 15,000 tonnes of other forms of uranium. Britain will no longer draw on stocks safeguarded under the Nuclear Non-Proliferation Treaty in order to make nuclear weapons. Stephen Young, of the British American Security Information Council, a defence watchdog, said the UK cuts and greater openness should be adopted by other nuclear powers.

Suspicions of armed services chiefs are allayed

By Alexander Nicoll, Defence Correspondent

General Sir Charles Guthrie, chief of the defence staff, said yesterday that the outcome of the year-long defence review was "a very good outcome" fully supported by the chiefs of the army, Royal Navy and Royal Air Force.

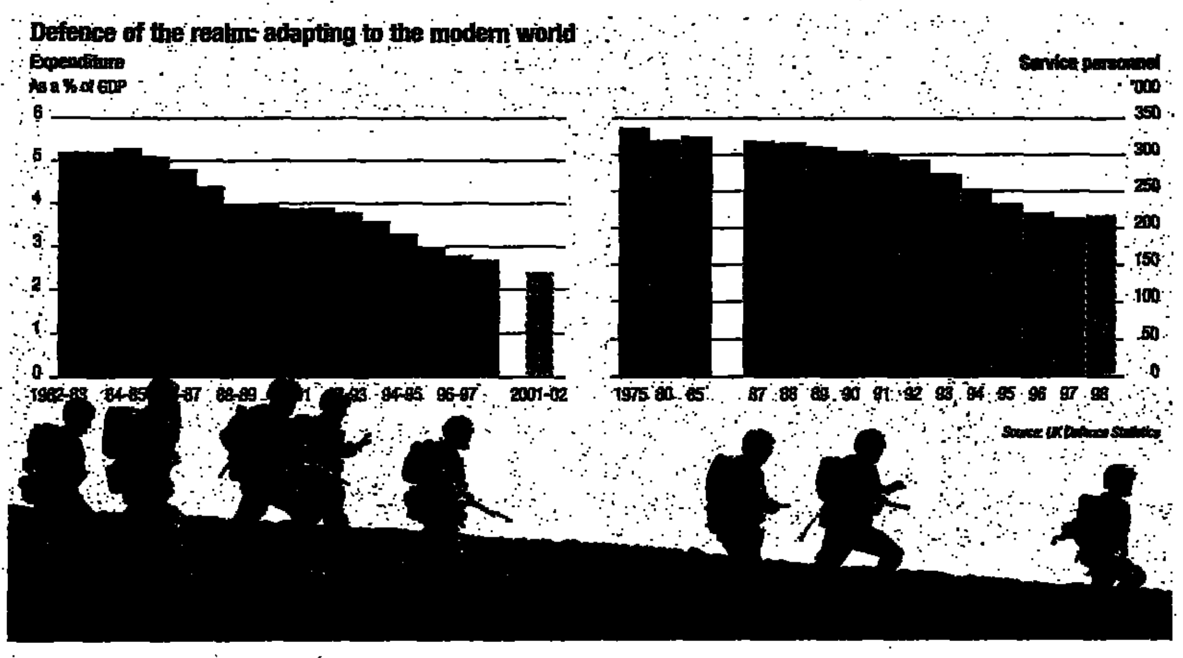
All levels of the services were suspicious of the Labour party's long-planned defence review. Gradually, service chiefs were convinced by repeated assurances from ministers that the review was "policy-led" – that is, an examination first of Britain's foreign and security policy, secondly of the resulting missions for the forces and thirdly of the force structures which could meet the mission requirements – though these naturally had to be affordable.

Senior officers believe the issues of greatest importance to them – morale and retention of skilled personnel – have been addressed by a human resources policy involving greater training.

The size of the army will actually increase by 3,300 from the present 109,000 and the Royal Navy and Royal Air Force will see no change in numbers.

The formation of new joint forces, such as a combined helicopter force and a new Harrier force, give each service an added stake in the UK's new expeditionary strategy.

In the long term, the navy appears the biggest winner because of the commitment to aircraft carriers, though it also has to stomach the loss of two attack submarines, three destroyers/frigates and three minehunters. The outcome for the army is mixed. Its armoured capability is reduced by the removal of some tanks and troops from Germany. The RAF loses 36 combat aircraft, although officers say this actually allows it to match aircraft with personnel.



Savings sought on procurement

The government hopes to make considerable savings by reforming procedures for procurement of equipment, which accounts for £9bn ($14.8bn) of the £22bn defence budget. The focus will be on developing closer customer-supplier relationships with industry, especially by involving companies in earlier design stages. The emphasis will also be shifted away from simply setting specifications and asking manufacturers to meet them. McKinsey, the management consultancy, has told the defence ministry it must distinguish better between big and small purchases, give project managers more authority and offer better incentives.

EQUIPMENT SUPPLIERS COMPANIES GRATEFUL FOR LACK OF UNPLEASANT SURPRISES

Manufacturers bemoan lack of detail

By Andrew Edgecliffe-Johnson

UK defence manufacturers welcomed the absence of unpleasant surprises in yesterday's long-awaited defence review, but added that it left many questions unanswered about the timing and detail of future procurement requirements.

Analysts said the only area in which defence companies stood to benefit more than had been expected was in the supply of armoured vehicles.

The government proposes to convert the army's present airborne brigade into a mechanised brigade, with the parachute role being transferred to the airmobile brigade. One analyst said that this would mean that twice as many multi-role armoured vehicles would be needed.

Paul Beaver, of Jane's Defence Weekly, the defence publication, said: "There is a lot of relief in the defence industry, but also a lot of questions. Most of the major programmes – such as Eurofighter, Tracer, Merlin and Project Horizon – seem safe, but the problem is there was no substance or dates."

But he stressed there had been "tremendous concern" in defence companies until quite recently because of suggestions that Project Horizon and Tracer may be cancelled. "People will be relieved across the board, from British Aerospace to the smallest supplier," he said.

British Aerospace expressed delight that the £3bn ($4.9bn) Tracer stealth armoured reconnaissance vehicle project had been approved. The company is in a joint venture with Lockheed Martin, Vickers and General Dynamics to develop a Tracer model for the US and UK armies, in competition with a rival consortium which includes the General Electric Company and GKN.

John Weston, BAe's chief executive, hailed the report as offering "greater stability in the defence industry, which will be better able to plan its investments and organisational structures".

Mr Beaver said that the report's "warm words" contained little detail about so-called "smart procurement" or outsourcing – both trends which defence suppliers have been keen to encourage.

David Marshall, director-general of the Society of British Aerospace Companies, said however, that the commitment to smart procurement was "the most fundamental issue in the review" as far as manufacturers were concerned. The integrated approach from the Ministry of Defence's procurement, logistics and operational personnel would be far more efficient for industry, he said.

CK Chow, chief executive of GKN, whose Westland division makes the EH101 helicopter, said consultation with the industry was a welcome element in preparations for the review. Mr Chow added that, for GKN, "it is gratifying that our capabilities as a prime contractor, which are focused on helicopters and light armour, lie at the heart of the new doctrine of rapid deployment and high mobility".

Vickers said the rest of its order for 386 Challenger 2 tanks, of which it has delivered 74, would be completed. But it added many would be kept in storage, creating "a business opportunity" for storage, maintenance and servicing".

MPs more interested in leak speculation

By George Parker, Political Correspondent

George Robertson, chief defence minister, managed to sell his review to the House of Commons with only limited opposition from the Conservative party. It was a measure of the coherence of Mr Robertson's review – and the limited nature of the cuts – that MPs seemed more interested in who leaked the document to the media, than its contents.

Mr Robertson was forced to make a full apology to Betty Boothroyd, the Speaker of the House of Commons, after copies of his review were passed to newspapers 18 hours before he revealed his plans to the House.

The prime minister's staff seemed genuinely aggrieved the full 57-page document had been passed to selected newspapers on Tuesday night.

Mr Blair announced the inevitable "leak inquiry" – a ritual in which ministers and officials are asked whether they passed on confidential information to journalists. Since an affirmative would lead to an inevitable dismissal, the leaker is hardly ever found.

Mr Robertson's fulsome apology to the House seemed to appease the Speaker, who has become increasingly angry at the way newspapers hear about big policy announcements before MPs.

Mr Blair tried to blame the Conservatives for passing the report to journalists – certainly members of the Conservative front bench received a copy on Tuesday evening. Most MPs concluded that a disgruntled general was a more likely source than a cunning politician.

John Maples, Conservative defence spokesman, claimed the £915m ($1.5bn) budget cut meant the government expected the armed forces "to do more with less money, fewer ships, fewer planes and fewer men."

Editorial comment, Page 13

NEWS DIGEST

CANTRADE AFFAIR

Time limit on offences in Jersey to be reviewed

A three-year time limit that could prevent certain fraud offences from being brought before Jersey's courts is being reviewed by the island's legislation committee in the wake of the Cantrade affair. The charges recently brought before the island's Royal Court that led to the jailing of Robert Young, the currency dealer, and Alfred Williams, former Touche Ross partner, were brought under the Investors (Prevention of Fraud) (Jersey) Law 1967. Unlike common law offences, which have no time limit, statutory charges must be brought within three years of the offence being committed. Common law offences have become established as crimes through the centuries and have not been written into the island's statutes.

A total of 90 charges were brought against Mr Young, Mr Williams and UBS subsidiary Cantrade Private Bank Switzerland (CI). But Commissioner (Royal Court judge) Sir Godfray Le Quesne ruled that many were out of time. Jersey's Court of Appeal is currently hearing an appeal from Young against his sentence of 4½ years, and judgment is expected today or tomorrow. **Philip Jeune, Jersey**

BEEF EXPORTS

EU decision on ban delayed

A European Union decision to end a ban on British beef exports will be delayed until at least September amid concerns from EU veterinary experts. The European Commission, the EU's executive, has agreed to send a team of veterinarians to the UK later this month to "allay the fears" of Britain's 14 EU partners over renewal of exports. This ends hopes that farm ministers would consider the Commission's proposal for ending the ban at their regularly monthly meeting scheduled for July 20 and 21. As there is no meeting planned for August, the first opportunity the Commission will have to push the proposal will be September. Some EU officials believe a vote is unlikely even then. The scheme would allow the exports of cattle born after August 1996, the majority of the UK's beef herd. **Michael Smith, Brussels**

EUROPEAN TELEVISION

MTV to launch web channel

MTV Europe will today announce plans to broadcast a music television channel over the internet. The channel will go on air next month as an internet version of M2 Europe, a digital television service specialising in music by new or experimental acts, due to be launched by MTV this October. Brent Hansen, president of MTV Networks Europe, said the internet project was intended to raise awareness of the M2 brand before the digital channel's debut this autumn. It was also a way for MTV to experiment with the internet. **Alice Rawsthorn, London**

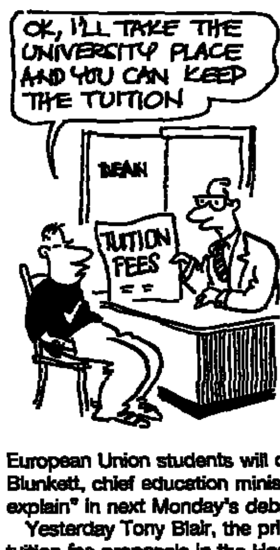
STANDARDS IN SCHOOLS

Daily 'numeracy hour' planned

A daily "numeracy hour" in primary schools is to be introduced next year as part of a £60m ($99m) national strategy to transform mathematics teaching, the government announced yesterday. In a package of measures that signals the return of "tried and tested" methods favoured in the 1950s, electronic calculators are to be banned for children under eight, and pupils are to learn the multiplication tables using traditional techniques such as chanting. The strategy, designed by the government's numeracy taskforce established last year, aims to tackle underperformance by the 40 per cent of 11-year-olds who are still functionally innumerate by the time they reach secondary school. **Simon Targett, London**

UNIVERSITY TEACHING COSTS

Ministers defend fee proposals



Ministers yesterday mounted an urgent defence of a controversial university tuition fee proposal for Scotland amid growing fears that persistent opposition from the House of Lords, the unelected upper house of parliament, could sabotage plans to charge undergraduates £1,000 ($1,650) a year from September. It follows the government's biggest parliamentary defeat, when a cross-party alliance of lords challenged for the third time proposals to charge students from England, Wales and Northern Ireland £4,000 for a degree in Scotland – even though Scottish and other European Union students will only have to pay £3,000. David Blunkett, chief education minister, will lead a mission "to explain" in next Monday's debate in the House of Commons.

Yesterday Tony Blair, the prime minister, defended the tuition fee proposals in the House of Commons, warning that opposition amendments to proposed legislation – which would give UK students outside Scotland the same exemption as Scottish and other EU students – would cost £27m. **Simon Targett and Andrew Parker, London**

Jump in car sales beats forecasts

Sales of new cars increased by nearly 12 per cent last month, according to the Society of Motor Manufacturers and Traders, *Haig Simonian writes*. The buoyant June figure meant sales were 7.8 per cent higher in the first six months of this year than in the corresponding period last year. Most manufacturers said last month's increase was well ahead of forecasts and reflected continued consumer confidence. Sales of UK-built vehicles increased marginally to account for 34.5 per cent of registrations last month, compared with 33.5 per cent in June 1997. Renault sales jumped more than 21 per cent, boosted by its new Clio hatchback; Ford saw a rise of more than 13 per cent. Sales at rival Vauxhall, the UK arm of GM, were static, reflecting the transition to the new-generation Astra range.

UK new car registrations: June 1998

	Jun 1998 Volume	% Chg	Share %	Jun 97 Share %	Jan–Jun 1998 Volume	% Chg	Share %	Jan–Jun 97 Share %
Total market	190,788	12.0	100.0	100.0	1,136,892	7.8	100.0	100.0
UK produced	58,526	15.2	34.5	33.5	375,304	1.8	33.0	35.0
Imports	124,262	10.4	65.5	66.5	761,588	11.0	67.0	65.0
Japanese makes	28,853	27.5	15.8	14.5	167,266	13.8	14.7	13.9
Ford grp	33,775	12.8	18.9	18.7	216,092	7.8	19.0	19.0
Ford	33,242	13.1	18.6	18.4	209,797	7.2	18.5	18.6
Jaguar	533	0.6	0.3	0.3	6,295	27.1	0.6	0.5
General Motors(1)	20,819	1.9	12.3	13.5	152,185	–9.3	13.4	14.6
Vauxhall	19,174	0.1	11.3	12.6	141,958	–1.0	12.5	13.8
Saab	1,645	29.2	1.0	0.8	10,227	10.2	0.9	0.9
BMW grp	20,142	7.0	11.9	12.4	140,066	4.8	12.3	12.8
BMW	3,762	14.4	2.2	2.2	34,202	12.4	3.0	2.9
Rover(2)	16,380	6.4	9.6	10.2	105,864	1.8	9.3	9.9
Peugeot grp	18,871	20.8	11.1	10.4	132,310	9.2	11.6	11.5
Peugeot	13,176	14.6	7.8	7.6	91,404	14.1	8.0	7.6
Citroën	5,695	34.7	3.4	2.8	40,906	–0.3	3.6	3.9
Volkswagen grp	13,895	–1.9	8.2	9.3	95,439	2.1	8.4	8.8
Volkswagen	8,514	–12.0	5.0	6.4	57,258	–4.1	5.0	5.7
Audi	2,501	30.3	1.5	1.3	20,668	15.5	1.8	1.7
SEAT	1,061	–13.7	0.6	0.8	9,522	20.5	0.8	0.7
Skoda(3)	1,819	35.4	1.1	0.9	7,488	0.5	0.7	0.7
Renault	13,779	21.1	8.1	7.5	93,718	21.4	8.2	7.3
Nissan	8,378	16.4	4.9	4.7	48,758	7.4	4.3	4.3
Toyota	6,988	52.6	4.1	3.0	41,745	17.4	3.7	3.4
Fiat grp	8,008	18.3	4.7	4.5	50,189	10.7	4.4	4.3
Fiat	7,417	15.9	4.4	4.2	46,454	8.8	4.1	4.1
Alfa Romeo	592	61.3	0.3	0.2	3,735	44.4	0.3	0.2
Volvo	3,001	17.8	1.8	1.7	17,380	–13.3	1.5	1.9
Mercedes Benz	3,001	4.7	1.8	1.9	24,336	18.8	2.2	2.0
Honda	4,690	13.1	2.8	2.7	30,139	18.8	2.7	2.5
Mazda	2,057	–16.8	1.1	1.5	14,310	–3.8	1.3	1.4
Korean makes	5,067	21.8	3.0	2.7	29,386	22.7	2.6	2.3

1. [illegible] 2. [illegible]
Source: Society of Motor Manufacturers and Traders

Car parts group brands insurance sector inefficient

Kwik-Fit uses its retail strengths to take on traditional risk-takers and finds the market needs change. **Christopher Adams** reports

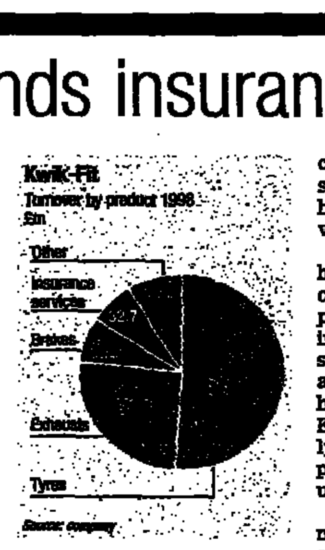
Kwik-Fit, the car parts group based in Edinburgh, the Scottish capital, is selling car insurance so fast that its call centre cannot keep pace with demand.

Sir Tom Farmer, chairman and chief executive, makes no attempt to hide his lack of experience in the insurance sector. That kind of knowledge is not necessary for efficient distribution, he says. "Insurance is a part of life, something we know we have to buy. But the industry itself is bureaucratic and inefficient. It needs a good shake-up."

The call centre telephones 5,500 potential buyers a night, their details drawn from a database of 5m who have passed through one of the company's repair centres. Sophisticated computer dialling sifts through a nation full of answerphones and predicts when the next operator will be free. Thirty per cent of those contacted buy a policy, well above average for the insurance market. In the three years since the company set up an insurance arm, the number of policies on its books has risen to a staggering 500,000. Operating profit grew from £1.2m ($2m) to £7.6m last year on turnover of £32.7m, while most insurers were struggling to achieve any growth.

That a tyre and exhaust fitter could make a better job of selling insurance than traditional risk carriers demonstrates the increasing importance of retail strengths – such as distribution and branding – in a market where fierce competition has forced prices sharply lower.

Kwik-Fit became convinced that setting up an insurance arm was a good idea after it was approached by insurers wanting to distribute policies under its brand name. Its entry into the market, like that of the leading supermarkets and the Post Office, is likely to keep prices and profitability under intense pressure.



As an agent distributing policies, the company leaves the underwriting to a panel of 14 insurers, much as a broker does. It generates leads through "research" carried out by telephone staff into how customers have found service at its vehicle repair centres.

Marketing is therefore highly selective and the sale of insurance is designed to promote loyalty among existing customers rather than seek new ones. This keeps acquisition costs low and has so far contributed to Kwik-Fit's growth but analysts say that it could limit prospects for expansion unless strategy changes.

"If you've got a good brand name, you don't have to do any advertising," says Steven Bird, of Merrill Lynch. "The difficulty is knowing how many of Kwik-Fit's customers are going to buy insurance from the company."

So far, its strategy has mimicked that of Direct Line, which pioneered direct marketing by telephone and initially sold policies to customers of Royal Bank of Scotland, its parent. Direct writers now control about a third of all private motor insurance sales in a market where the cyclical movement of prices has all but disappeared.

Intermediaries are fighting back, helped by the development of electronic data interchange, which has quickened the transfer of information between insurers and brokers.

Sir Tom is looking to diversify. Claims handling costs could be cut dramatically across the industry and service improved, he says. Kwik-Fit could, for example, manage claims for insurers. The group already does this for the companies on its underwriting panel and is piloting a scheme that channels repairs through its own approved network of body shops instead of those used by insurers.

It also offers home and travel insurance and may launch a mobile repair service. Expansion into mainland Europe, where the company has repair centres in the Netherlands and Belgium, is also a possibility.

HOLLAND MORAL VICTORY CLAIMED DESPITE SEMI-FINAL DEFEAT

Solace gained from purity of purpose

They shun ugly football but the Dutch are not always the best behaved, writes **Simon Kuper**

For a good 15 minutes after Tuesday's match in Marseilles, the best players in the World Cup stayed on the pitch to hug each other.

Brazil's Ronaldo embraced Holland's Boudewijn Zenden, to whom he had lost countless friendly wrestling matches when they were boys at PSV Eindhoven. Clarence Seedorf and Roberto Carlos, team-mates at Real Madrid, intertwined too, and so did almost everyone else.

At last, Brazil and Holland had met opponents they respected. Holland are probably the most coherent team of this World Cup, while Brazil have the best players.

There is no Dutch Ronaldo: Dennis Bergkamp played a dreadful match, but this time without his ritual moment of genius. Nor could the Dutch argue that the penalty shoot-out was a lottery, given that three out of four Brazilians placed their kicks unstoppably high in the side-netting.

Yet Holland go home relatively content, because they believe that in a sense they have won this World Cup.

To them, winning is not a crude matter of converting the most penalties. Johan Cruyff, the spiritual father of Dutch football, argues that Holland won the 1974 World Cup, even if they lost the final to West Germany, because they gave pleasure to the world.

Before Tuesday's match, the Dutch players avowed that only victory in the base, goal-denominated sense counted. Yet in their bones they are all Cruyffians. As Poul Scheffer, who advises the Dutch government on foreign policy, explains: for a small country it is easier to be moral than to be strong.

Unanimously, the Dutch despise teams who come to the World Cup to defend. They were dumbstruck when the Belgian players cheered after holding a 10-man Holland to 0-0 in a tedious opening match.

If he had been born Belgian, says Philip Cocu, he would find playing their brand of football monumentally frustrating. Cocu flies home from France having excelled at centre-forward, in midfield and only slightly less so at left-back. He may have missed his penalty against Brazil, but he has won the kind of moral victory that the Dutch prize.

Most sides in this World Cup depressed Holland. "There was only one team that wanted to play football today, and it was the Dutch," said Jaap Stam after Holland beat Yugoslavia. Guus Hiddink, the Dutch coach, then praised England – at that point potentially Holland's next opponents – for having added the skills of David Beckham and Michael Owen to their side.

The Dutch believe they have a duty to keep others moral as well as themselves. To them the cardinal sin, even worse than defensive football, is diving to win free-kicks. The concept is so foreign to the Dutch that they denote it with the German word "*Schwalbe*", or "swallow".

Belgium's Lorenzo Staelens got Patrick Kluivert sent off with a *Schwalbe*. When Luis Hernandes, the Mexican striker, collapsed a good metre and a half away from Arthur Numan, a horde of outraged Dutchmen descended on him.

"The Mexicans screw their colleagues," pronounced Numan. So did the Argentines, Holland's opponents in the quarter-finals. Numan committed a bad foul on Diego Simeone, but probably received his second yellow card because Simeone feigned near-death, disappearing on a stretcher before returning, chipper, while Numan was still making for the tunnel. A few minutes later Ortega dived to win a penalty, was surrounded by a Dutch mob, and then gently headbutted Holland's keeper, Edwin van der Sar.

This was the Dutch moment of truth. Van der Sar proved that the team, although incapable of mortal sin, can manage the odd venial one. He collapsed "like an ironing board", as Hiddink was to say, and an impressed referee sent off Ortega. Playing 10 against 10, Holland won. Van der Sar admitted afterwards: "Ortega brushed me with his head. I made use of that."

Hiddink added: "The Dutch don't always have to be the best behaved boys in the class."

Van der Sar's swallow was the first of the Dutch summer, but it seemed an omen. No longer would the Dutch, in their own phrase, be "more Roman than the Pope".

One evening this week, after the squad had finished training, an onlooker chanced on the bizarre sight of Seedorf and Edgar Davids hurling themselves repeatedly to the ground. They were practising *Schwalben*. "All the other teams do it, so we have to as well," explained Davids.

Of course, when it came to it, the Dutch did not. Three or four times against Brazil, Bergkamp and Pierre van Hooijdonk fell eagerly, but each time they had genuinely been fouled. Bergkamp, the one Dutchman from whom one expects the odd *Schwalbe*, turns preacher himself on the topic of vicious defenders.

And Holland played Brazil the Cruyffian way. They did most of the attacking and refused to play ugly football. Frank de Boer, Holland's captain, marked Ronaldo almost solely on the basis of skill. Even with three Brazilians bearing down on him, Van der Sar would pass the ball to a team-mate rather than hoof it clear.

Before the match, Hiddink had mounted his pulpit to proclaim: "Brazil, sadly, is no longer swinging and flaming. I see defenders boot the ball away shamelessly. Holland must never play like that. If we did, people would murder me, and they would be right to do so." Cruyff, Louis van Gaal and Wim Jansen, three great Dutch coaches, have all complained that Brazil's game relies simply on getting the ball to Ronaldo.

Aldair and Junior Baiano committed the odd sin on Tuesday, but nevertheless Brazil were the better team. At the ritual ceremony in Amsterdam to crown the moral victors of the World Cup, they will receive second prize.

Penalty purgatory: Holland's Philip Cocu in despair after his miss in the semi-final shoot-out against Brazil Reuter

MARKETING

ISL acts over ticketing scandal

ISL Worldwide, the group that handles the marketing of the World Cup, said yesterday it was taking full control of ISL France, the Paris-based company at the centre of an alleged World Cup ticket fraud, in an attempt to limit the damage to its reputation caused by the scandal.

Last month three senior executives of ISL France, which was 49 per cent-owned by ISL, were arrested by police investigating the illegal sale of thousands of France 98 match tickets. The inquiry, and the subsequent decision by the World Cup organising committee to file a formal complaint with French prosecutors against the Paris company, has proved hugely embarrassing for ISL.

The Swiss group has been the exclusive marketing partner of Fifa, football's world governing body, since 1982, and to have the ISL name linked to a ticketing scandal that has attracted enormous attention worldwide has been a blow to its reputation.

At a press conference in Paris, Glen Kirton, senior vice-president at ISL, said the group was acquiring the remaining 51 per cent of ISL France and taking full management control of it. "We will now assume the legitimate business concerns to make sure the goals of ISL Worldwide are reflected in the management of the company," he said.

ISL had only allowed the Paris company to use its name because of the World Cup, Kirton said, but the only way to limit the damage to the group's reputation was to take over the business.

The ticketing scandal involving ISL France has come at a bad time for ISL, which has only recently embarked upon a campaign to develop Fifa as a global brand. It is also signed up to handle the marketing of the next two World Cups in 2002 and 2006.

Yesterday Kirton revealed that the company planned to change the World Cup marketing structure for the next tournament, which will be co-hosted by Japan and South Korea. Instead of running two separate marketing campaigns – one for the host country and one for the rest of the world – as at France 98, he said the marketing arrangements would be consolidated into one structure.

He also revealed that the number of World Cup sponsors would be reduced for the event in four years' time. A total of 45 companies sponsor the current tournament in various capacities, but in Japan and South Korea there will be fewer local sponsors, cutting the total number of backers to between 24 and 30.

Although in 2002 there are still likely to be 12 "official partners" – the highest and most expensive category of sponsor – so far only one current sponsor, Coca-Cola, has signed up for the event. However, Kirton said ISL had already received several letters of intent from other companies.

Patrick Harverson

TICKETS SYSTEM USED FOR USA 94 PROVES A DISASTER

Failings ensure a win for the touts

Patrick Harverson and **David Owen** on the mistakes that led to fraud and fiasco

As individual fans and corporate entertainers scramble for the handful of available tickets to Sunday's World Cup final, it has become clearer than ever that the real winners of the tournament are the French people. Or at least those who last year bought as many match tickets as they could and then sold them at hugely inflated prices to visiting fans.

The number of people around the world to have been left ticketless, despite buying what they thought were bona fide package tours, must run into many tens of thousands. Yesterday alone, it emerged that up to 2,500 British business people are without tickets for the final, following the latest travel company collapse.

But throughout the tournament there has been clear evidence of the severe imbalance between supply and demand for tickets in the proliferation of scrawled cardboard signs clutched by desperate (and evidently cash-rich) supporters. Hundreds of thousands of visiting non-French speakers now know that "*Cherche billets*" means "Tickets wanted".

It is hard to imagine circumstances more favourable to the activities of touts, amateur and professional. Indeed, so many French residents have made a killing from selling tickets that the event may well contribute to a further erosion of the country's traditional antipathy to the free market. Demand has been particularly high from Japanese fans, and for games involving England, Holland and Brazil, who have large numbers of highly committed fans.

In some respects, this situation would have been hard to avoid. With 32 teams competing – the most ever – demand was always going to be high, and all the more so given France's easy accessibility to fans of a high proportion of the teams. Only two of the venues, moreover, accommodate more than 50,000 people, so supply was always going to be limited.

The mistake made by Fifa and the French organising committee was in not adapting the ticket distribution system used at USA 94 to fit the very different circumstances of France 98.

As four years ago, roughly 60 per cent of tickets have gone to domestic buyers, a little over 20 per cent to sponsors, and less than 20 per cent to competing countries. One result has been to make the 1998 World Cup a disappointingly muted event inside the stadiums. There has been plenty of colour and enthusiasm in the stands, but seldom much raw passion.

There have been other, more serious weaknesses in the system, not least the ease with which it has been exploited by unscrupulous sellers, whether from national associations, corporate interests or dodgy travel agencies. French police have arrested several people after investigations into alleged ticket frauds; Fifa has launched its own investigations; and lawsuits are being prepared on behalf of the fans from Japan, Brazil and elsewhere who bought phantom tickets.

Colourful customers: demand for black-market tickets among Japanese fans was high AP

Any sporting event as big as this World Cup is bound to be targeted by crooks and double-dealers. But for France 98, the basic mechanism for distributing tickets was, in retrospect, flawed.

A large number were sold as early as 1996, long before the scheduled programme of fixtures was known, in order to finance the running costs of the competition's organising committee. These so-called Pass France 98 packages were available only to people with a French postal address. Moreover, purchasers generally had to buy tickets for all first and second-round matches in individual stadiums.

One benefit of this is that venues have been full, or nearly full, for even the less attractive first-round fixtures. But any enterprising French tout could have used the system to accumulate a stock of cheap tickets to sell on at an impressive profit.

England fans wanting to see the England v Colombia match in Lens reported being charged as much as FFr10,000 (£1,000) for two tickets. In Saint-Etienne, a more remote town that hosted the subsequent England-Argentina game, supporters were pleased to be able to secure tickets for about FFr2,500 each.

The French authorities, acknowledge the activities of touts as "morally reprehensible", but say there is little they can do to stop them unless the tickets involved are forged or stolen.

Fifa acknowledges that ticketing at France 98 has been unsatisfactory and said matters would be handled differently for the next tournament in Japan and South Korea in four years' time. One improvement would be for the body to fund the local organising committees out of pre-sold TV and marketing rights, so they do not have to sell match tickets before the fixtures list is known.

Yet the irony is, the much-criticised system used in this World Cup may be appropriate for the 2002 tournament, which will be less accessible to European fans, played in bigger stadiums and therefore much more like USA 94 than France 98.

ORGANISATION

French prove efficient hosts

With only four days left of the 1998 World Cup, the 601 men and women who work for the Comité Français d'Organisation are probably feeling pretty pleased with themselves.

Contrary to many expectations, France 98 has gone remarkably smoothly, and as the organiser of the event the CFO deserves most of the credit. The only substantial problem has been the ticketing arrangements, which are mainly the responsibility of Fifa, world football's governing body.

Otherwise, the people who matter most – the fans – seem to have found France 98 an enjoyable and largely trouble-free experience. Even the teams, and the notoriously hard-to-please media hordes (all 12,000 of them) have had little to complain about during the month-long event.

Before the tournament, the cynics foresaw half-full stadiums, security nightmares as police tried to deal with the twin threat of hooligans and terrorism, and transport chaos as the road and public transport system struggled to handle the flow of fans and cope with strikes by transport workers, truck drivers and other aggrieved interest groups.

Such pessimism has proved unfounded. The stadiums have allowed large numbers of people to watch matches in safety and comfort. Some, such as the stunning Stade de France and the small but perfectly formed Stadium Municipal in Toulouse, have been a genuine pleasure to visit.

The atmosphere at matches has also been excellent, with a few exceptions – notably wherever England played. The idea of erecting giant television screens in city squares and parks so that ticketless fans could see games was a popular move.

The transport system for this World Cup will probably never be bettered. The hangover from the Air France strike made air travel tricky in the first few days, but most fans have used the excellent railway network to get around.

The security arrangements have been largely effective, although the authorities were caught on the hop by hooligans in Lens and Marseilles. What has been particularly pleasing has been the absence of police inside the stadiums, which have been supervised by local stewards. Although the breakdown in the ticketing system ruined attempts to segregate fans, there has been very little trouble at matches.

Admittedly, more than 4,000 people have needed medical treatment at World Cup events. Yet they have not all been fans or victims of hooligans.

It was reported in France this week that a third of the people treated at the stadiums have been members of the media. Officially, it was because they needed aspirin to cure headaches, but most of them were probably the pre-tournament cynics suffering from indigestion because they had been forced to each so much humble pie.

Patrick Harverson

CINEMA MARTIN HOYLE

A worthy but unmoving labour of love

Despite an Academy Award to its credit, Sling Blade gets lost in its seriousness


A slick suspense story: a confused and lumbering John Travolta in 'Mad City'

As befits an Academy Award winner for best original screenplay, *Sling Blade* reeks of worthiness. It is humane, compassionate, caring and, by the end of its 2¼ hours, just the tiniest bit tiresome. I wish I liked it more.

Patently a labour of love for its author, director and leading actor, Billy Bob Thornton, the film moves with the gravitas that often hobbles American high seriousness. The story of Karl, a *mentally backward man* returning to the redneck community where, as a child, he murdered his mother and her lover is told with almost formulaic correctness.

Karl befriends the fatherless Frank (Lucas Black, the excellent child actor from the TV series *American Gothic*) and tries to protect him and his widowed mother from her brutal and drunken lover. Their ally is, naturally, the local gay man, played by an unrecognisably middle-aged John Ritter, admirably negotiating such potentially mawkish scenes as the dinner party introducing Karl to a nice mentally retarded woman of his own kind.

The film's well-meaning pretensions demand capital letters. It deals with Issues, aspires to Art, and is full of Fine Acting. Thornton's performance as Karl is a case in point: one of those physically idiosyncratic exercises *that has Oscar fodder written* all over it. His lower lip jutting, head weaving and bobbing evasively, voice growling up from some internal gravel pit, Thornton produces a technically proficient piece of work that leaves me for one admiring but unmoved.

At times, the script comes on like the J.M. Barrie of the boondocks. "That boy lives inside his heart... That's an awful big place to live in," murmurs the perceptive simpleton, in a snatch of dialogue that is all too typical.

SLING BLADE
Billy Bob Thornton

MAD CITY
Costas Gavras

TOUCH
Paul Schrader

MOJO
Jez Butterworth

KISS OR KILL
Bill Bennett

GURU IN SEVEN
Shani Grewal

*

Costas Gavras' latest starts with too many echoes of better treatments of similar themes to be entirely successful. *Mad City* spins a good yarn: how a "hostage situation" (children holed up in museum by disgruntled ex-employee) is manipulated by the media.

Confused, decent John Travolta accidentally shoots *a colleague and lets himself* become a public figure used by various interest groups, above all by cynical television reporter Dustin Hoffman. Much of it recalls the bungled bank heist of *Dog Day Afternoon*, as the crowds outside the besieged museum turn devoted husband and father Sam into a hero, while the manoeuvrings of the television networks recall – well, practically every other film about hard-bitten hacks in pursuit of a scoop and soft-boiled old editors, ripe in humanity, dispensing small-town wisdom.

The film shoots itself in the foot by switching villains in midstream. Hoffman's fast-talking, worldly wise reporter suddenly redeems himself with the revelation of his outraged compassion at star anchor-man Alan Alda's crass on-screen quizzings over mutilated corpses following an air disaster.

This prepares the way for Alda's appearance, the slick big-time *operator* who freezes Hoffman out of the story and attempts to break his career. But it leaves us ambivalent about the new whiter-than-white reporter.

A nice thumbnail portrait of the dewy-eyed intern (Mia Kirshner), initially adoring Hoffman as the sophisticated professional in a small provincial pool, shows her effortlessly adopting the ruthlessness of Alda's media star.

Travolta plays the gunman with a wonderful mixture of lumbering, bear-like bewilderment, soft-heartedness and tightening nerves as desperation and anti-sleep pills turn him into a slurred zombie. But *Mad City* just *fails to engage as more than* a slick suspense story with knee-jerk issues thrown in.

*

Touch takes equally familiar themes and misses true satire by an even greater margin. Paul Schrader's fable of the young faith-healer (Skeet Ulrich, lustrous of eye and incisive of cheekbone), the wheeler-dealer who tries to exploit him (Christopher Walken, in good *sleazy*, somnambulistic form), the evangelical nutter who turns homicidal (Tom Arnold, chief victim of the film's woolly focus) emerges as a damp squib.

Mildly entertaining, it courts comparison with *harder hitting stories about* American media-religion and looks fangless in comparison.

Woolly focus also blurs *Mojo*, adapted and directed by Jez Butterworth from his stage success. Original reports praised the play's comedy, but the only humour in this po-faced and portentous nightworld of Soho gangsterism in the burgeoning rock-'n'-roll of the late 1950s is unintentional. With its cryptic non-sequiturs, the synopsis reads like the bad translation of a complex opera ("Baby... is confronted about the nut-squeezing... He says Luke... loves him. Ezra *slaps him hard in the face*").

The singing adolescent (shades of Faith, Wilde, Fury, Richard) is battled over, notably by a homosexual gangster played as a jovial piranha by Harold Pinter. A club-owner is sawn in half; bruised Luke is shot, departing for that great nightclub in the sky.

The final shot shows ambivalent Baby and the emotionally mixed-up teenage idol venturing into the uncertain, abrasive liberty of Soho street-life. Young kings succeeding the old? Youth culture sloughing off the dead hand of its postwar elders? Or 90 minutes of grown men with childish *names hurling abuse at one* another? The author directs up a mean claustrophobia with a roll-call of promising young British acting talent.

I heard much of *Guru in Seven* with hands over my eyes since the giddy use of hand-held camera actually induces in me a slight nausea akin to seasickness.

Shani Grewal's breathtakingly cheaply made comedy, a sort of Asian *Alfie*, is free-wheeling, cheerful, cheeky and observant. Grewal, another writer-director, shows his Punjabi hero, coming up for 30, trying to bed seven women in seven days.

The result, if rough-edged, *is surprisingly* fresh, *with* sideswipes at prosperous Anglo-Asian pretensions, Bollywood musicals, Punjabi mafiosi and sexism – for no, the film is neither misogynist nor chauvinist, brisk fornication notwithstanding.

More hand-held camera in *Kiss or Kill*, but Bill Bannett's Australian homage to the young-killers-on-the-run genre is more disciplined. A rattling good chase story, with the couple pursued by baddies as well as the police, the added suspense as each begins to suspect the other of motiveless murders, and an Agatha Christie twist.

All is done with the extra dimension of the Australian landscape, the heat and dust and those vast spaces that promise escape but turn into nature's remorseless jailer.

OPERA HEY PERSEPHONE!

Faulty escape mechanisms

Deirdre Gribbin has composed *Hey Persephone!*, a flawed but appealing "opera" – and not unoriginal – to a contemporary-Glaswegian libretto by Sharman Macdonald (of *When I was a Girl I Used to Scream and Shout*). Co-produced by the Aldeburgh Festival and the Almeida Opera, it played at the Almeida last week. Sadly, you are too late to see it now; but Gribbin's next opera will surely take thoughtful account of *Persephone*'s mis-steps, and may well prove exciting.


Damien Thantrey and Amanda Boyd in 'Persephone' Alastair Muir

To all practical purposes, Macdonald's title is an irrelevance. Persephone, as perhaps you recall, was the daughter of Demeter, goddess of the fruits of the earth. She wed Pluto, god of Death and the underworld, but contrived an arrangement which allowed her an annual escape to sunny Earth, returning to her mother for each vernal season.

Though Macdonald is fascinated by mother-daughter relationships, hers are tuned to a modern, domestic mode which has precious little to do with Classical myths. Once nubile Maeve (Amanda Boyd) falls for the dreadlocked, footloose hippie John (Damian Thantrey), her promise to come home for six months every winter sounds artificial and unlikely; and the central figure of the action, her divorced, lonely mother Ellen (Helen Williams), is no kind of Demeter.

As I said, though, that is irrelevant. Macdonald gives us a familiar but lively sketch of a tenement community in TV style, complete with three ever-watchful, gossipy housewives as commentators. (You could say *ah! Greek semi-chorus!* if you like, but why bother?) Gribbin brings it to quick operatic life, with a panoply of delicate, rarefied little sounds – mostly unpitched – *that track the action and* expose it, like film-music of the very first quality.

Psychologically acute, and telling; but selflessly devoted to enriching the subtext, instead of commanding the foreground. There are many hiatuses when it falls silent. That *shyness precludes* any sense of *musico*-dramatic development. The solo "arias", but for one extended folksy lament, are short-breathed; and like the ensembles, they often go over into even-note rhythmical, atonal lines, like 12-note student experiments. Those passages have a certain rhetorical effect, first off – but the drama cools as they fade.

Gribbin needn't have flaunted her academic credentials thus. Better by far to trust her excellent ear for meaningful *sounds*, and to let it take over her operatic writing altogether, without regard for old, formal manners. There are new kinds of "musical development" to be found in that way, and they might have lent *Hey Persephone!* more cumulative cogency. Everything else helped: William Lacey's careful conducting, Hettie Macdonald's plain, down-to-earth direction and Robin Don's strong designs.

David Murray

Powerful stab at war

MUSIC

RICHARD FAIRMAN

Christopher Maltman
City of London Festival

In recent years there has been such a tendency to over praise young song recitalists that one becomes wary of evaluating any new arrival. It is as though music-lovers are overjoyed to see the art-form surviving at all.

If it is going to flourish into the next millennium, let us hope that the cause will be championed by young singers with a sense of adventure. To judge from his City of London Festival recital, the young baritone Christopher Maltman should *qualify on that score. His* idea of bringing together a programme of songs about war by various composers is hardly new, but their range was undeniably challenging: mighty Mussorgsky, gentle Fauré, jazzy Dankworth, subtle Ravel, it was a daunting selection.

This did not leave much time to get bored – almost a shame, given that the recital was being held in the fascinating 18th century Great Hall of St Bartholomew's Hospital. A few more lacklustre songs and one could have studied the wall plaques listing the hospital's donors and the amounts they gave two centuries before the foundation of the National Health Service.

As it was, there was only a handful of softer songs in which Maltman allowed the attention to wander.

For a largely untried young recitalist he is already very accomplished. *Maltman's baritone is easy* at the top and well-focused when he sings quietly, his French and German are good (I cannot vouch for his Russian), and his stage presence is relaxed and confident.

Anything asking for power, such as Schumann's "Die beiden Grenadiere", had plenty of firepower for a hall this size. Perhaps Ravel's *Don Quichotte* settings ask for more swagger, but he captured their elegance to a tee; the five Butterworth songs from *A Shropshire Lad* were nicely expressive in these underplayed performances with his accompanist, Andrew Smith.

A more specific emotional response will hopefully come in time: it was difficult to tell exactly what Wolf's Drummer-boy was thinking, and the long, mythic story of Schubert's "Cronnan" could have been told with a keener narrative style. But in the right song, Maltman is up *there with the best.*

At a time when every baritone of note wants to sing Butterworth's master-song "Is my team ploughing?", this is one young singer who has little to fear from the competition.

INTERNATIONAL Arts Guide

AMSTERDAM

EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
www.stedelijk.nl
Katharina Sieverding Retrospective 1967-1997: major display of photographic works by the German artist; to Jul 12

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-93-329 1908
www.bcn.fjmiro.es
Private negatives, public fictions: 100 photographs from the collection of the Musée National d'Art Moderne in Paris. Includes works by Robert Doisneau, Dora Maar and Man Ray; to Jul 12

BERLIN

DANCE
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Swan Lake: new staging by Patrice Bart, with designs by Luisa Spinatelli; Jul 10

BRUSSELS

DANCE
La Monnaie
Tel: 32-2-229 1211
Ballet Frankfurt: in works by choreographer William Forsythe; Jul 9, 10, 11, 12

BUDAPEST

EXHIBITIONS
Hungarian National Gallery, Buda Castle
Tel: 36-1-375 7533
Jozsef Rippl-Ronai: retrospective of the Hungarian post-impressionist, comprising 250 works. Includes decorative art objects and personal photographs and letters as well as paintings loaned by private collectors and museums; to Sep 6, then transferring to Saint-Germain-en-Laye near Paris

Museum of Applied Arts
Tel: 36-1-217 5222
Zsolnay: Art Nouveau Ceramics. Display of 200 objects made between 1897 and 1918 at the family-owned Zsolnay factory in Pécs. Includes goblets, vases and other objects. The museum, opened in 1896, is itself decorated with Zsolnay pyrogranite; to Sep 27

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
The Winter Queen: The Life of Elizabeth of Bohemia. Includes around 50 paintings, plus a selection of engravings and medals; from Jul 10 to Oct 4

FLORENCE

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
La Bohème: by Puccini. Conducted by Semyon Bychkov in a staging by Jonathan Miller; Jul 9

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major with sets and costumes by John Conklin. Conducted by George Manahan. Cast includes Kevin Glavin, Stephen Powell and Amy Burton; Jul 11
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and conductor Stewart Robertson; Jul 12

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Rodelinda: by Handel. New production directed by Jean-Marie Villégier, with sets by Nicolas de Lajartre and Pascale Cazales. With the Orchestra of the Age of Enlightenment conducted by William Christie; Jul 12, 14
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Jul 11

GRAZ

DANCE
Opernhaus
Tel: 43-316-80080
Kirov Ballet in a three-week season. Performances include Swan Lake (Jul 9, 14), a Fokine evening (Jul 10), La Bayadère (Jul 11) and The Sleeping Beauty (Jul 12, 13)

KARLOVY VARY

FILM FESTIVAL
Tel: 420-17-321 2204
The elegant west Bohemian spa town formerly known as Carlsbad is taken over by the biggest film festival in central Europe on the centenary of the birth of Czech film-making. There will be competitions for films and documentaries, showings of new films from the former Socialist bloc and a retrospective on Czech animation. For accommodation information call 420-17-321 2525-7; to Jul 11

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Carmen: by Bizet. Sir Colin Davis conducts the London Symphony Orchestra in a concert performance, with soloists including Olga Borodina and José Cura; Jul 12, 15

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
Lucrezia Borgia: by Donizetti. Conducted by Gianluigi Gelmetti in a staging by Hugo De Ana. Casts vary; look out for Renée Fleming; Jul 9, 11, 13, 14

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Jun Märkl in works by Brahms, Mahler and Schoenberg. With soloist Barbara Hendricks; Jul 13, 14, 15

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
La Traviata: by Verdi. Production directed by Jonathan Miller and conducted by James Conlon. Cast includes Ramon Vargas; Jul 10, 13

ROTTERDAM

EXHIBITION
Kunsthal
Tel: 31-10-440 0300
Streetwise: 10 years of party, dance and house culture. Multimedia presentation designed to present an overview of this youth culture, originated in Chicago in the 1980s. Includes furniture, clothes, flyers, projections and sound effects; to Sep 20

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony and Chorus: conducted by Nicholas McGegan in Beethoven's Ninth Symphony and Piano Concerto No. 2, with piano soloist Anton Nel; Jul 9, 10

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
NDR-Sinfonieorchester: conducted by Günter Wand in Bruckner's Symphony No. 5; Lübeck, Musik- und Kongreshalle; Jul 10, 11

STUTTGART

OPERA
Staatsoper Stuttgart
Tel: 49-711-202090
● Alcina: by Handel. New production by Jossi Wieler and Sergio Morabito, conducted by Alan Hacker, with designs by Anna Viebrock; Jul 10
● Tosca: by Puccini. New production by Willy Decker, conducted by Lothar Zagrosek with designs by Wolfgang Gussmann; Jul 14

THE HAGUE

EXHIBITION
Lange Voorhout
Tel: 31-70-364 5784
The Hague Sculpture 98: outdoor exhibition of more than 50 works; to Jul 14

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
Un Ballo in Maschera: by Verdi. New production by Giuliano *Montaldo. Conducted by Daniel* Oren; Jul 11

TV AND RADIO

● ***WORLD SERVICE***
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
● **CNN International**
Monday to Friday, GMT:
08.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:** 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

The moral of Japan

The visitor from Mars would suppose that deflation is easier to fight than inflation. In a sensible world he would be right

Over the past 50 or 60 years inflation has been the greatest monetary danger facing the world. During this period numerous warnings about deflation, especially from those who remembered or read about the 1930s, turned out to be wrong or misleading.

Yet we all know the story of the boy who cried "wolf". The wolf did finally appear. There is a similar risk that policymakers – having had so many false alarms – will not pay sufficient attention to genuine signs of deflation. These are most obvious in Japan, but incipient elsewhere.

In the Euro-11 group the average inflation rate is now down to 1.4 per cent. Allowing for measurement errors, this is practically price stability. Although the continental European business cycle is at present in an upward phase, the medium-term dangers may be as much those of deflation as of inflation.

In fact there is an asymmetry between inflationary and deflationary forces. The first reflect excessive spending in money terms. The second reflect inadequate spending. But their impact is different. Excessive spending soon feeds into the price level of goods and assets. Prices respond quickly by rising. Inadequate spending (or falling spending) tends to be reflected first in lower output and employment, rather than prices. This is because prices and pay tend to be rigid against downward pressure: they resist falling.

Thus, contrary to the view of many central bankers and mainstream economists, an inflation target is *not* sufficient to ward off both dangers, even if undershooting the target is treated as seriously as overshooting it.

These points are illustrated by the Japanese consumer price index which has fallen only once over a full year in the 1990s. This June it was 0.3 per cent up on a year ago. Yet the Japanese economy has been stagnant since 1991, with only one year (1996) of normal growth.

Japanese producer prices have been a slightly better indicator, falling in some recent years, including 1996. But even they have been an inadequate guide; and in any case central bankers would tend to discount them because they are based mainly on manufacturing and exclude services. A better indicator would have been land prices, which peaked in 1990 and, in the six big cities, have fallen by a cumulative 50 per cent.

Another asymmetry between inflation and deflation is that nominal interest rates cannot fall below zero. If the general price level is falling, real interest rates will rise. A modest and gradual deflation may do little harm if the resulting level of real interest rates is appropriate in the light of savings and investment trends. But in a country facing a severe recession, like Japan today, even a modest 1-2 per cent annual fall in prices would be perverse.

Obviously, a priority for Japan should be to prevent a massive destruction of the money supply and other forms of financial wealth brought about by a collapse of its banks. The purpose of the forthcoming rescue operation should not be to bail out banks or their shareholders but, first, to prevent a collapse of spending in Japan, and secondly, to promote an increase in line with the economy's underlying supply potential.

The proverbial visitor from Mars would suppose that this – fighting deflation – would be relatively easy to arrange. Fighting inflation involves trying to get people to spend less and accept lower pay increases; fighting deflation means trying to get them to spend more – surely not very difficult from all we know of human nature. Moreover, the techniques of demand stimulation have been endlessly studied since the 1930s. We have no excuse for being without contingency plans.

What then is perceived to be the difficulty about reflating the Japanese economy? The standard objection to further monetary easing is that Japanese short-term nominal interest rates are, at around ½ per cent, almost as low as they can go. Japan does seem to be in what Keynes described as a liquidity trap.

Yet that is not the end of the story. Several American economists have argued that the Bank of Japan should engage in large bond purchases from the public, which would put money directly into people's hands. One objection is that they might simply buy more US securities.

This brings us to the heart of the matter. The impact would then be to lower the yen further (despite US intervention) and stimulate the economy by another route. What would be wrong with that?

One answer is the domino theory. If the yen depreciates even further, it would worsen the competitive position of other east Asian economies and could trigger a Chinese devaluation and thus set off a game of competitive depreciation.

The most robust rebuttal comes from Patrick Minford who writes in the Liverpool Investment Letter: "The main hope must be that the exchange rates of Far Eastern countries devalue one after the other" which would "permit, indeed require" more money to be printed. "Further falls in eastern currencies would lower import prices in the west and so ease the pressure to raise interest rates, as so far they have already done to some extent." The mechanism "requires that the west be willing to let its current balance of payments deficit get a lot bigger as the east exports its way out of trouble into western markets".

Or, as the less provocative Andrew Smithers writes (Smithers and Co. Report No.118): "A sustained recovery is . . . dependent on a major increase in the current account surplus", which requires devaluation.

Could not fiscal policy, which has been the classic response of many followers of Keynes to a slump that does not yield easily to monetary stimulation, be used as a stimulant? The main objection to further tax cuts is that of a debt trap. In other words future taxpayers will have to pay more and more to service the interest on the national debt rather than to provide public goods and services. But that only applies to bond finance. Faced with the threat of a slump and no inflationary danger on the horizon, governments are justified in borrowing from the banking system, or even the central bank, at extremely low rates of interest.

In conclusion, it is worth recalling two suggestions for increasing the stock of money. Keynes suggested burying pound notes in the ground and leaving it to the profit motive to dig them up – thus neatly combining monetary and fiscal policy. Milton Friedman posited the dropping of dollar bills by helicopter.

Rather than allow either a major economy, or the industrial world as a whole, to plunge into a deflationary spiral it would indeed be better to use the helicopter or the hole in the ground. What this amounts to saying is that however pessimistic people are, if they are given enough money they will eventually spend it. Even if they work less and take more leisure, this will be voluntary leisure and a sign of prosperity rather than slump.

The only valid argument against experimenting with every variety of monetary and fiscal expansion is that it could stoke up a fresh round of inflation when confidence recovers. To which I can only reply this should indeed inhibit the monetary authorities in the face of the normal postwar type of recession; but if the deflationary danger is great enough, the benefits of emergency action would in the end outweigh more remote and hypothetical dangers.

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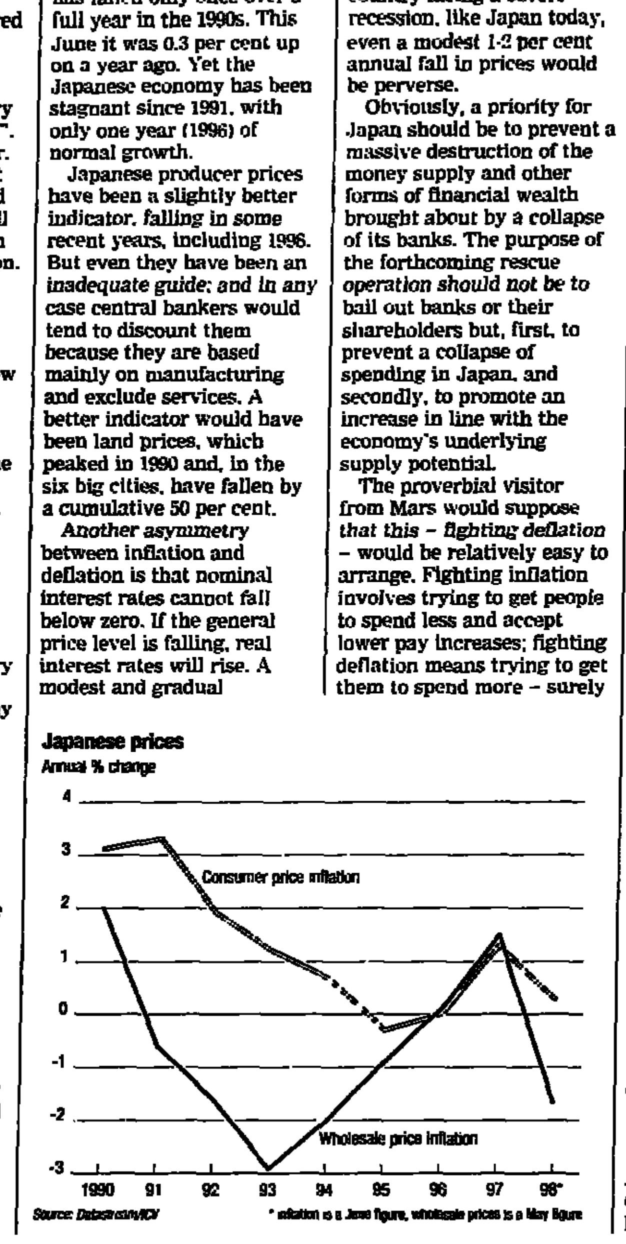
Japanese prices
Annual % change



Source: Datastream/ICV * inflation is a June figure, wholesale prices is a May figure

LETTERS TO THE EDITOR

Deal raises question of broadening ownership of stock exchanges

From Mr John Brewer.

Sir, Lex ("Bourse buddies", July 8) wonders why London will end up owning only half the new company being set up with Frankfurt's Deutsche Börse to trade Europe's biggest stocks and suggests that the ownership split will be the principal, delicate matter requiring negotiation. This is, with respect, missing the point.

Stock exchanges ceased some years ago to be private clubs whose activity touched a small number of wealthy investors or speculative punters. The institutionalisation of pension contributions and insurance premia has irrevocably bound the savings of every salaryman with not only the stock market's returns but its good governance in addition.

As long as we see rationalisation in their number and function, and as long as their importance to the working of the private sector increases, the question of broadening the ownership of exchanges beyond brokers to embrace investor interests in addition is going to have to be addressed. This week's announcement appears to provide a good opportunity.

John Brewer,
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Man in moon

From Mr John Murray.

Sir, David Lang asks (Letters, July 1) about the meaning of hard and soft landing where the economy is concerned. His more detailed questions, however, assume that landing will occur on planet Earth. It seems to me that the economy's refusal to be anchored to terra firma is most probably a function of reduced gravity, suggesting the moon is a more likely destination.

Certainly, one can imagine the chancellor, Gordon Brown, being well pleased with a landing in the Sea of Tranquility. What I have yet to ascertain is whether the man in the moon is Eddie George or Wim Duisenberg.

John Murray,
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Rule changes would make for more interesting football

From Mr Dimitri Vittas.

Sir, Most people who follow the 1998 World Cup would agree that it is high time for football reform and some basic changes in the rules of the game. Here are some suggestions:

- Change the ejection rule for flagrant fouls with an "ejection and forced substitution" rule. Ban the ejected player for one or two games; and award a penalty kick for any additional forced substitution. In this way both individual players and teams that commit flagrant fouls would be punished without destroying the flow of the game.
- Apply the offside rule only in the penalty area.
- Award points for penalties, corners, and fouls (5-3-1 would be an example) and decide games on the basis of points won in cases of a draw after extra time. Goals scored would decide most games but this change in the rules would ensure that a team that dominated a tied game would not lose on penalty kicks. Penalty kicks would still be used if the game is tied after extra time and the teams have the same points.

Changes in the rules along these lines would affect the way teams play, but by discouraging overly defensive tactics they would make for more interesting games.

Dimitri Vittas,
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Maryland 20817, US

There must be a less complicated way, surely

From Mr Simon Eccleston.

Sir, I hate to ask the blindingly obvious but is it really necessary to have anyone setting a minimum interest rate? We have a free market in many other things: why not in this? No one sets a maximum interest rate. All that surely is necessary is that competition should not risk deposits and for that minimum capital ratio monitoring should suffice.

While appreciating the practice is worldwide, so was socialism and nationalisation. Or is it that Bank of England governor, Eddie George, really is wearing clothes?

If the real requirement is to depress people into reducing spending there must be less pseudo-intellectual ways of doing it!

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PERSONAL VIEW JONATHAN EYAL

Defence on the cheap

Britain and France are both cutting military spending at a time when more is expected of their armies

By coincidence, both Britain and France have unveiled important changes to their armed forces this week. Britain's Strategic Defence Review is more ambitious in its approach and thorough in its analysis than its French counterpart. Yet both these reviews reveal a broadly similar emerging defence posture in western Europe's most important military powers.

Resources will be devoted to the creation of smaller but highly professional armed forces. Both countries remain committed to playing a global role by improving their long-range strike capability. And miraculously, both governments claim they can achieve these objectives while lowering their defence expenditure.

Lower expenditure and higher capabilities are not necessarily contradictory aims. Modern warfare does not depend on serried ranks of ill-motivated recruits that the French had in the past, nor on a large number of heavy battle tanks that Britain accumulated to oppose a Soviet thrust into the heart of Europe. Much will be saved by getting navies, armies and air forces to work together, by sharing common assets such as helicopters, and by squeezing defence equipment manufacturers harder.

Britain has gone further than any of its European allies in involving the market in its defence activities, and has started shifting the risk of cost overruns on defence equipment to the producer.

However, the fact still remains that both Britain and France will devote a smaller share of their gross domestic product to the military (roughly 2¼ per cent of GDP in both countries). George Robertson, the UK defence secretary, has succeeded in fending off greater cuts demanded by the Treasury. But at the very best, defence expenditure will record no growth in the coming three years. Alain Richard, his French counterpart, may yet suffer a worse fate. Meanwhile, one thing remains certain: the demands on both countries to act militarily around the world will only increase.

On his own: demands on British and French soldiers will increase

At a cursory glance, Europe is now more peaceful than in any period this century. There is plenty of bloodshed in the former Yugoslavia. But the local warlords have no plans to overrun the continent. Their problem is how to persuade other Europeans to leave them alone to the business of killing.

Nevertheless, huge security dangers remain. Russia resembles Germany's Weimar Republic in the 1920s: a weak democracy with a feeble economy and disgruntled military. What the Kremlin wants from the west (recognition of its sphere of influence) the west is not prepared to grant; and what the west is offering (dialogue, partnership, talking shops) Moscow no longer finds appealing.

Further afield, parts of Asia already resemble the Europe of the last century, with economic powers in decline and other states rapidly rising, territorial disputes all around, a sense of historic grievance, and a developing arms race. And Africa is undergoing a second period of decolonisation; many of the multinational states created three decades ago are disintegrating.

None of these developments automatically requires European intervention. Yet technological advances have rendered geographic distance irrelevant. Britain could fairly soon be vulnerable to missiles fired not only from Moscow, but from Tripoli, Tehran and further afield.

More important, it is virtually impossible for either Britain or France to know when and how public opinion or national interests could demand the commitment of troops. The confused nature of many of recent conflicts has resulted in a curious reversal of political roles. It is now the military that often claims little can be done to douse conflicts around the world, while those who traditionally argued that force solves nothing in international relations demand instant military action.

Public opinion may demand action, but it also recoils at the sight of dead soldiers. The race is on to acquire the means for a neat, surgical strike

Britain and France know they will be involved partly because of their historic links around the world and partly because of their instinctive global outlook. Germany has made some progress in its readiness to commit troops overseas, yet, in Europe, only the French and the British are used to seeing their soldiers deployed in far-flung places.

But the biggest future problem is not even mentioned in current British and French military plans. Public opinion may demand international action, but it recoils at the sight of dead soldiers. The race is therefore on to acquire the means for a surgical strike, a "virtual war" in which the only blood appearing on television screens is that of the enemy.

The US leads by far in this area, and the technological gap with Europe is increasing exponentially. In spite of their different political outlook, both France and Britain tacitly accept that any future operation will require some American involvement. Since the fear of "body bags" is most keenly felt in Washington, the possibility exists that the Americans will offer the Europeans logistical support, while expecting Britain and France to provide most of the soldiers and casualties.

Plans for a joint European defence co-operation are touted almost daily as a supposed answer to this dilemma. But those who shout loudest about a European defence identity are those who have cut their own defence budgets most.

Politicians like to talk about the best possible scenarios; the military is expected to plan for the worst. Because of the time it takes to produce new weapon systems, decisions have to be taken now on the basis of threats expected a decade away. The only thing a defence review can do is to appreciate the margin of insurance against unforeseen dangers that a country can afford.

Both Britain and France have opted for a military capable of responding to a whole range of circumstances. It was a proper decision. But it would be too much to claim that it was based on any scientific analysis – let alone that it is guaranteed to work.

The author is director of studies at the Royal United Services Institute in London

COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday July 9 1998

Now for real open skies

The European Commission's conditional go-ahead for the planned alliance between British Airways and American Airlines closes probably the most important episode in one of the longest regulatory soap operas in aviation history. But it is far from the end of the story. Indeed, the whole saga points to the need for a new beginning.

The alliance must still be approved by the UK and US governments. That is expected, after some ritual haggling, later this year. Authorities on both sides of the Atlantic need then to ask themselves some hard questions. Their starting point should be why the deal – announced more than two years ago – has taken so long to clear regulatory hurdles.

Brussels is only partly to blame. Karel Van Miert, the competition commissioner, was right to insist on investigating the deal. He has championed far more boldly than UK authorities the legitimate interests of passengers. Some of the delay in his verdict reflects the deal's peculiar structure. A straightforward merger would have been vetted much faster under EU rules.

In any other business, the companies almost certainly *would* have merged. That option is blocked by limits on foreign ownership of US and EU carriers. Those restrictions are depressingly typical of the panoply of government-imposed constraints which distort the international airline market and stifle competition.

It is time to reform this anachronistic system. The BA/AA deal could provide an opportunity, by leading the UK to join other EU countries in reaching an "open skies" agreement with the US.

The US has used "open skies" agreements as a divide-and-rule tactic, to secure privileged access to the European market for its carriers. Now that most EU members have signed up, they should have a strong incentive to support Brussels' efforts to negotiate on their behalf a broader and more balanced deal, which would liberalise transatlantic aviation.

That may be a tough task. It would mean removing obstacles to foreign takeovers of airlines on both sides of the Atlantic, and to international competition on US routes. The tricky issue of slot allocation would also have to be tackled. But if the US and EU are serious about forging a closer economic partnership, they should not duck the challenge.

Meanwhile, air transport needs to be brought within World Trade Organisation rules. That should be a priority for the world's four largest trading powers, who meet in Ottawa today to discuss the next WTO drive to free global services trade. Their long-term aim should be a simple one: to get governments out of the airline business, other than to the extent required to ensure safety, essential infrastructure and free competition.

Nigeria's plight

The death of Moshood Abiola, Nigeria's most prominent political prisoner and presumed winner of the last presidential elections, could scarcely have happened at a worse moment. The country was already in a state of acute political tension following the death of Sani Abacha, the military dictator who jailed him, one month ago.

Abiola was never likely to be the "saviour" of Nigeria. He was the victor of a dubious election in 1993, representing one of two artificial political parties, created by the military. He was also a multimillionaire whose fortune was based on close connections with the very military elite which eventually imprisoned him. He was as much part of Nigeria's problem as its solution.

His release from jail was nevertheless a precondition for any transition from military to civilian rule. It would have been confirmation of the government's good faith. And civilian rule is essential for Nigeria to cease to be an international outcast, and to attract the investment needed to revive its shattered economy.

Military rule has left the country with an infrastructure in ruins, and without basic social services – in spite of being a major oil producer. The soldiers have been blatantly corrupt, frequently brutal and invariably impervious to criticism.

There is a real desire to return to civilian rule, if only because the soldiers have failed. But the process will not be simple, and cannot happen overnight. The mechanism set up by Abacha – under which he would have been the sole presidential candidate of the five registered political parties – was hopelessly flawed. It needs to be reconsidered.

The constitution, never published, needs to be debated and amended if necessary. A transparent process for the registration of political parties is required. A genuinely independent election commission must be established. Above all, institutions must be created to curb the corruption which has ruined every Nigerian government since independence, whether military or civilian.

It seems clear that October 1 is an impractical deadline for a return to civilian rule. Abdulsalam Abubakar, the new head of state, can allay concern at a delay by immediately releasing all remaining political prisoners. He should appoint a civilian cabinet spanning the country's ethnic and religious divide. He must set a new deadline for the transition, no more than 12 months hence.

Many Nigerians may regard any extension of the handover date with suspicion. But if the promised elections are held with undue haste, voters risk discovering the democracy they crave has been built on sand.

Military mite

The top brass can start their victory celebrations. The UK government's strategic defence review has come up with a paltry £685m of underlying savings over three years. True, the military will have to withdraw from some fine London properties, but there will be few casualties among front line troops and two big new aircraft carriers have been gained, for action in distant seas.

The review, published yesterday, starts with a strategic assessment which might have led to a much more radical conclusions. After the collapse of Soviet communism, it says: "There is no longer a direct threat to Western Europe or to the UK as we know it, and we face no significant military threat to any of our overseas territories."

What then is the £22bn of military spending all for, especially if troops can be withdrawn from Northern Ireland? Does the UK still need a huge arsenal (£19bn) of missiles, shells and spares? And does the expense of three rival services make sense as military technologies converge?

The review approached these questions with commendable frankness; but it has been clear for some time that, for political reasons, the government's answers would be cautious.

There are more solid reasons for restraint. Much of the peace dividend has already been reaped by previous governments. In the last eight years, defence spending was cut by 23 per cent in real terms and the forces reduced by a third. Britain's nuclear arsenal is only 30 per cent of its level in the 1970s. And the saving from scrapping the Trident nuclear submarines would now be only about 3 per cent of the defence budget.

Moreover, there clearly is a case for maintaining, at some level, a flexible and mobile armed force to meet unexpected international crises, such as in the Gulf war or Bosnia; and to help guarantee peace in Europe.

With these thoughts in mind, the review has been imaginative. It promises better support for fighting units in their new tasks. And it emphasises co-operation between the services, by putting forces under common commands, sharing use of all helicopters, and introducing better co-ordination of procurement.

This last sector is where the biggest economies are promised. But unless there is a stronger determination to let in foreign competitors and, if necessary, to sacrifice British jobs, such promises may be no better than those in the past.

Overall, this review will give the forces a chance to regroup after a sustained budgetary assault. But if the strategic assessment is correct, there will be pressure before long for a more radical response.

Boarding business class now

A European Union judgment means that, over the next 20 years, the world's airline industry will be able to realign itself around four or five global alliances, argues **Michael Skapinker**

In giving conditional approval to two international airline alliances yesterday, Karel Van Miert, the European Union competition commissioner, has unveiled the shape of the aviation industry for the next 20 years.

Considering what it does, the airline business ought to be one of the world's most global activities. Instead, since the Wright brothers, it has been dominated by national flag carriers, many of them lossmakers. In most other sectors, these would now be merging into larger groups, following the example of, say, investment banks or cars. In the airline business, such mergers have been prevented by politicians and national pride.

So the pressure to go global has produced business-sharing alliances. Of these, two have been especially important: between British Airways and American Airlines and between United Airlines of the US and Lufthansa of Germany. Until yesterday, their fate had been in the balance of Mr Van Miert's judgment. Now they have his approval.

Even so, his is not the last word. The national authorities in the UK and Germany will have to pass judgment on both deals and the BA-American alliance needs the go-ahead from the US department of transportation.

But none of these authorities is likely to diverge substantially from Mr Van Miert's recommendation. He says the deals are acceptable if BA and American cede 267 weekly take-off and landing slots, mostly at London's Heathrow airport, and if Lufthansa and United relinquish 108 slots, mostly at Frankfurt.

Before yesterday's announcement, Mr Van Miert expressed his anxieties about alliances more volubly than any other regulator. If even he is persuaded that they should be permitted, other officials are unlikely to stand in their way.

So what do these deals say about the shape of the world airline industry over the next few decades? Industry executives and analysts believe the world's carriers will group themselves into a handful of partnerships. Instead of dealing with a clutch of airlines before setting out on their journeys, travellers will book with just one alliance. They might change from one airline to another but, as the carriers will be partners, travellers will have to check in only once. Airline partners will try to arrange their flight schedules so that customers do not have to hang around airports for too long.

These global alliances are still being formed, but it is possible to discern the outlines of the four biggest. The best established is Star Alliance, headed by United and Lufthansa. Formed last year, it also includes Scandinavian Airlines System, Air Canada, Thai Airways and Varig of Brazil. The core members – United, Lufthansa and SAS – already have anti-trust immunity from the US authorities. This allows them to co-operate in setting fares and co-ordinating schedules.

The link-up between American and BA will form the basis of a new grouping, which is likely to be even more powerful than the Star Alliance. American and BA want to bring in Japan Airlines, Canadian Airlines, Qantas of Australia and Iberia of Spain.

A third group is led by Delta Air Lines of the US, which has an alliance with Swissair, Austrian Airlines and Sabena of Belgium. The fourth alliance is led by KLM of the Netherlands and Northwest Airlines of the US.

These partnerships are likely to change shape, as new carriers are brought in and existing members are tempted away by rival groupings. The formation of new domestic airline partnerships in the US will also result in new carriers joining the worldwide alliances. American and US Airways announced a marketing agreement earlier this year. US Airways is likely to join the BA-American-led alliance. Northwest and Continental Airlines have announced a tie-up. So have United and Delta – raising the possibility that their two alliances could eventually merge.

Airlines are forming these alliances for much the same reasons that investment banks (or stock exchanges) are merging:

● First, because their most lucrative customers – large multinational companies – are demanding it. They want to conclude single travel deals, not contracts with dozens of airlines. "Since the late 1980s and early 1990s, we have watched our customers' needs change," says Donald Carty, American Airlines's chairman. "The economy is becoming ever more global and our customers now want access to markets all over the world."

Few airlines can provide such access on their own. They have been confined to their national markets and a limited number of overseas routes. The industry has been highly regulated. No flight was allowed to take place unless the governments at both ends agreed.

BA has accumulated a choice selection of destinations, largely in former British colonial outposts such as Singapore, Sydney, New Delhi and Johannesburg. It can also fly to the largest American cities, but has no access to the vast US domestic market beyond that. American can fly anywhere in the US and has built up an impressive Latin American network, but it cannot offer its customers flights to other long-haul destinations served by BA.

The airlines' hope is that combining their operations will help create the makings of a real international network. By adding airlines from the rest of the world, BA and American should be able to fill in any gaps.

The Star Alliance is already operating in this way, offering a single service to corporate customers, who previously would have had to deal with six individual airlines.

● The second reason alliances are being formed is defensive. Aviation is not a highly profitable business. Asian airlines are losing fortunes but even US airlines, enjoying their best year ever in 1997, recorded miserable profits. Net earnings as a proportion of revenues were 5 per cent, far lower than the pharmaceutical, advertising or financial services industries. The cost of buying and maintaining aircraft is high, while deregulation in the US and Europe has pushed fares downwards.

In any other industry, the airlines would merge or acquire one another. The larger companies would be able to cut costs by combining their marketing and information technology departments, and would use their increased size and purchasing power to demand lower prices from aircraft manufacturers and other suppliers.

But governments are not prepared to see their airlines taken over, even if they are privately owned. "There are no flag chemical companies or flag hotel companies, but there are flag airlines and nations have historically protected them by limiting foreign ownership," says American's Mr Carty. In the US, foreign ownership of airlines is limited to 25 per cent. In the EU, the figure is 49.9 per cent. Unable to merge, airlines have turned to the alliances as an alternative.

But can the alliances achieve the same benefits as a merger? In some cases, yes. The best example is the relationship between BA and Qantas, in which BA has a 25 per cent stake. The two airlines have a single management structure in Asia. Co-ordinating their flight schedules has allowed BA to reduce its aircraft capacity on the UK-Australia route by the equivalent of a 400-seat Boeing 747-400. Qantas saved the equivalent of a 250-seat Boeing 767-300.

This is the exception. Few other alliances have achieved this level of co-operation. One reason is that some are not allowed to: it is one thing to have regulatory approval for an alliance, quite another to get anti-trust immunity from the US or other authorities allowing the a collaboration needed to cut costs deeply. The BA-Qantas arrangement is possible because the airlines have such permission from the Australian Trade Practices Commission.

Qantas and BA also say their corporate cultures are compatible. BA and American say the same thing. Other alliance partners have less in common. This might explain why alliances have such difficulty staying together. A study by the Boston Consulting Group found that only a third of the intercontinental alliances in place in 1992 were still in existence three years later.

Nor is it clear that all passengers necessarily benefit from alliances. Corporate travel agents say Star Alliance has made travel more convenient for business travellers, but has not brought down fares. Business passengers at least have travel managers to explain why they might find themselves flying with a different airline; leisure travellers are more likely to be confused by the proliferation of alliances and angry to find themselves flying with an unexpected carrier.

This was why alliances were repeatedly described as a "fraud on the consumer" by Robert Crandall, American's former chairman. Mr Crandall retired this year, convinced that alliances were unethical. But he put in train the link-up with BA before he left. Whatever his personal views, he said, the entire industry had embraced the idea and American had to follow. For both good and ill, it is the industry's future flight plan.

Airline alliances

United Airlines
Lufthansa
Scandinavian Airlines
Air Canada
Thai Airlines
Varig
American Airlines
British Airways*
Japan Airlines*
Canadian*
Qantas*
Iberia*
Delta
Swissair
Austrian Airlines
Sabena
KLM
Northwest Airlines

Source: FT * prospective members

Correction

Russia must redeem Rbs378.9bn ($60bn) of short-term treasury bills over the whole of 1998, not over the balance of the year ("Helping Russia", July 6). And the 1997 losses of the Italian state railway were roughly 0.4 per cent of GDP, not 3 per cent ("Freight train going so slow", July 3).

OBSERVER

Jacko spins the wheel

Detroit voters will be turning out next month to vote on whether pop star Michael Jackson and entrepreneur Don Barden can build a $1bn "Majestic Kingdom" – a glitzy theme park including a hotel, a casino, botanical gardens and nightclubs – in downtown Motown.

Donald Trump called the city "one of the last great opportunities for casino development in the US" – local punters have long been a mainstay of betting joints over in Canada. After a state referendum to allow gambling, the city fathers decided that there would be three casinos in an old riverfront warehouse district of the city. But when the licence winners were announced in April, Barden wasn't one of them.

The Indiana riverboat casino owner's supporters have now forced the Majestic Kingdom issue on to a citywide ballot.

Even if the city approves the scheme, Michigan voters have to restate support for allowing casinos in the state in another referendum, called because some people feel that casino-led urban regeneration isn't such a great idea after all.

Barden insists that the project won't go ahead without the casino, so the whole thing might still go out of the window. That, according to Jackson, would be too bad.

The Majestic Kingdom is, says the variable-hue rocker, a "family theme-oriented project" – all part of his "mission to push the envelope of technology beyond its limitation in creating the most wonderful themes as humanly possible for the heart, for the childlike heart that lives inside every man and woman".

Nothing to do with making lots of money from gambling, then.

Fannie miss

Investment king Warren Buffett does have a few regrets – like deciding to invest in Fannie Mae but not getting round to it. "We would've made many billions of dollars. But we didn't do it." he told a bunch of students at the University of Washington.

But he didn't regret investing in Microsoft, even though Bill Gates was sitting beside him at the talk-in, reported in the latest *Fortune* magazine. "I don't worry about not buying Microsoft because I didn't understand that business." He favoured outfits that would look "more or less as they do today" – except bigger – in a decade or three. So if a company might be affected by the internet "I avoid it".

Gates's company is about as internet-sensitive as they come, and the high-tech billionaire cheerfully admitted that "in the next 10 years, if Microsoft is still a leader, we will have had to weather at least three crises". He plans to have picked a new chief executive by then – he'll give it some thought over the next five years.

Few of the companies Buffett invests in would take as relaxed a view as Microsoft about the pirated software installed on most of the 3m or so computers sold in China every year. It seems that it's a sort of advanced billing policy.

All right, so people weren't paying for software, but they would one day. "As long as they're going to steal software, we want them to steal ours," said Gates. "They'll get sort of addicted, and then we'll somehow figure out how to collect sometime in the next decade." Aspirant Microsoft chief executives should start working out how.

Making tracks

Fred Grauer may be one of the most numerate fund managers in the business, but there's something about his departure from Barclays Bank that doesn't add up.

The 51-year-old American arrived at the UK clearer three years ago with its acquisition of Wells Fargo Nikko, the fund manager with more PhDs than Nasa's staff canteen. Now, just three months after getting a leg up on to the bank's executive committee, he's packed his black-box for a destination unknown.

The man known as the "high priest of index tracking" should have plenty of options. Any number of rival fund managers would be delighted to welcome him aboard.

Having demonstrated his entrepreneurial streak in the 1980s by building up Wells Fargo, and again in the 1990s engineering the deals with first Nikko and then Barclays, Grauer may fancy running his own show. Alternatively, he could earn an agreeable living in academia, possibly back at one of his old stamping grounds – the Massachusetts Institute of Technology or Columbia University.

There has been no word from Grauer's San Francisco lair about what he plans to do next – or why he's leaving Barclays at this stage. The official line is that, after 15 years at the top, he felt it was time for a change.

Wells Fargo Nikko old hand Pattie Dunn, 45, who takes Grauer's place on the executive committee, looks a good choice to fill the void. But she's got a tough act to follow.

News blackout

An indication of the isolation in which the Nigerian regime keeps people it doesn't like comes from the recent meeting between Moshood Abiola, the rightful president who died on Tuesday, and United Nations secretary general Kofi Annan.

On being introduced to Annan, Abiola asked "Who are you?". When told, he enquired: "What happened to that Egyptian?" Abiola was allowed only the Bible and the Koran while in prison. Even the brutal Burmese junta allows leading dissident Aung San Suu Kyi to listen to the radio.

The Financial Times

100 years ago

Bear Hug in China

Russian audacity in the Far East grows with success, and the latest move of M. Pavloff is calculated to take one's breath away by its sheer impudence. The Russian Chargé d'Affaires is now engaged in fighting the extension of the Northern Railway, linking Peking with the Port of Newchwang. Russia wants a railway in this direction to connect up her possessions of Port Arthur and Talien-Wan with the capital. Now Newchwang is on the direct route between Port Arthur and Peking, but in order to divert trade from a free port in which nine-tenths of the business is in British and American hands, the Russians have deliberately planned a bend in their line with the object of killing the trade of Newchwang and diverting it to themselves.

50 years ago

Power Cut in Berlin

Western Berlin commanders called for more planes to strengthen the gigantic air bridge yesterday, a few hours after announcing electricity cuts expected to throw half-blockaded West Berlin's industrial workers out of jobs. Berlin's airfields are by no means saturated, and many more flying boats could be landed on Lake Havel.

FINANCIAL TIMES
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THE LEX COLUMN

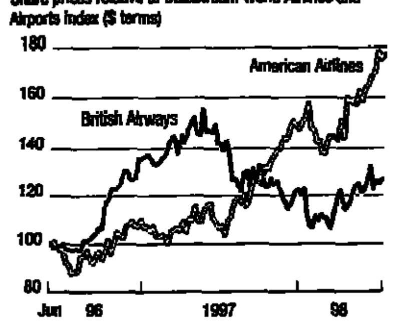
Fantasy football

Buying a Brazilian bank hardly compensates for losing to them at football. But if ABN Amro's purchase of Banco Real lives up to expectations, it will at least guarantee some happy shareholders. In terms of strategic and cultural fit, the deal is hard to fault. A retail focus, conservative management and decent record of returns fit with ABN. The enormous growth potential, meanwhile, should go some way to offsetting the slower growth in its core Dutch and US markets.

Whether ABN is getting good value is less clear. Jan Kalff, ABN's chairman, reckons he is not paying more than 10 times 1999 earnings. Other valuations suggest he could be paying around 3¼ times Banco Real's book value – a chunky multiple for assets in a developing market. Still, ABN's assumption that it can achieve a 17 per cent return on equity by the third year at the latest does look feasible. Significant cost savings can certainly be achieved, combined cost of funds will be much lower, and revenue synergies are available. If Brazil proves a good medium term bet, ABN probably has a good deal.

Whatever the upside, Banco Real will not compensate for ABN's losing out in the struggle for Belgium's Générale de Banque. For the restless Mr Kalff, there is unfinished business closer to home.

British Airways/ American Airlines
Share prices relative to Datastream World Airlines and Airports Index ($ terms)



Source: Datastream/ICV

ECB

Will the City of London suffer for the UK's decision to stay out of economic and monetary union? Two years ago there were widespread fears that the European Central Bank would cut up nasty, refusing to provide euro liquidity to UK banks. Judging by yesterday's decisions, those fears were misplaced. A nice compromise has been struck that allows UK banks access to intra-day liquidity while allaying German fears about any harmful monetary policy side effects. True, the access is not the same as banks from the euro-11 will enjoy, but then Target is not the sole conduit for euro liquidity.

Minimum reserve requirements will be applied in a way likely to minimise competitive distortions. Out countries like the UK will not have them, but given that market interest rates will be paid on these reserve deposits, funds are unlikely to be driven offshore. London would probably have benefited from a heavy-handed approach that encouraged development of an offshore euro-market. But as the UK may well join Emu, London's interest is probably best served by the more modest system that has been followed.

BA/American Airlines

It has been a long haul, but the British Airways/American Airlines alliance is finally lumbering forward. There is still some horse-trading to do, but the European Commission's conditional go-ahead marks a turning point. The alliance should thrive despite relinquishing up to 267 weekly take-off and landing slots, as long as the disposals are phased. Anything too abrupt, and yields would fall sharply to fill the extra transatlantic capacity quickly. The wider picture for investors is that the Commission is endorsing the concept of airline alliances, which is good news.

Alliances should improve the industry's notoriously inefficient use of capital. Airlines will no longer have to service uneconomic routes just to ensure they are not locked out from them. Instead, routes will form part of portfolios maximised across a group. Alliances will also have more clout in negotiating with manufacturers, and should deliver synergies. For BA, these could reach £200m ($330m) a year. Extra passenger growth would be another spin-off.

Of course, industry restructuring is high risk. Four main groupings are emerging, based on a mixture of contracts, goodwill and small stake-holdings. They will shift – and some might break down – confusing consumers. BA/AA looks powerful, but could be knocked back if important and footloose airlines like Cathay Pacific join rivals. But when the turbulence ends, the remaining airlines will be stronger.

US M&A

Has the US mergers and acquisitions boom passed a high-water mark? While deal volumes are at record levels, the stock market reaction to recent transactions paints a different picture. AT&T's shares have fallen 13 per cent since it launched its takeover of TCI. Norwest, SBC Communications and American Home Products are all down too. In five of the seven giant mergers launched since April, the "acquirer's" share price has fallen. The exceptions are Travelers and NationsBank.

There may be good reasons in each instance. The AT&T deal is bafflingly complicated; SBC's may not pass regulatory muster. But investor scepticism extends beyond the mega-mergers. In 60 per cent of acquisitions over $5bn this year, the predator's stock price has dropped, according to the CommScan information group. In nearly a third of the cases the fall is over 5 per cent, much worse than in 1997.

This reflects increasing concern that companies are overpaying. The average 1998 acquisition premium, at 23 per cent, is in line with previous years. But factor in the bull market, by comparing the takeout price to the stock price 12 months previously, and the premium soars to 61 per cent – the highest for five years, says J.P. Morgan. Many recent deals also face big execution risks, as they rely less on cost cutting and more on elusive revenue synergies. This is compounded by the fad for mergers of equals, which often blur management responsibilities. Tellingly, Travelers and NationsBank both have excellent acquisition records.

Since the market is efficient at valuing takeovers, this suggests there are some poor deals in the making. Once managements and investors take this on board, they will become more circumspect about launching or backing new ones. The M&A boom may yet prove self-correcting.

Australia passes law to curb aborigine land rights

Move helps avert risk of an early race-based general election

By Russell Baker in Sydney

Australia's federal parliament yesterday finally passed controversial legislation which curbs the land rights of aborigines, averting the risk of an early race-based general election.

The passage of the amended native title bill – approved by the upper house of parliament – was greeted by cries of "Shame!"

The new law, which reduces aborigines' rights to claim access to government pastures leased to farmers, is a victory for the government of John Howard, the prime minister. It also helps clear the way to complete the privatisation of Telstra, the national telecommunications company, which has been delayed by lack of parliamentary time.

The government's victory on the native title legislation may, however, prove short-lived, as aboriginal leaders signalled they would mount legal challenges.

Mr Howard had threatened to dissolve both houses of parliament and call an election, if the senate rejected the bill for a third time.

The native title issue has divided Australians and played into the hands of the populist politician Pauline Hanson. Her campaign against Asian immigration has struck a chord with Australians at a time when the economy is weakening because of the regional financial crisis.

Mrs Hanson's One Nation party performed strongly in last month's Queensland election, prompting fears that race and immigration would dominate a national election.

Mr Howard said passage of the legislation "was a wonderful outcome for all Australians". He said: "It takes from the national political agenda something that was always, in the eyes of some, divisive."

The native title legislation has taken up 100 hours of parliamentary debate over the last year and held up the government's high-profile plans to push through the privatisation of Telstra, the telecoms group. Legislation to sell the remaining two thirds of Telstra is currently bogged down in the upper house.

The delay is also due to growing concerns within the National Party, part of the governing coalition. Some members are worried about how the A$50bn (US$30bn) privatisation will affect services to rural voters.

"We got a fantastic outcome for Australia on native title and I naturally want a good outcome on Telstra," Mr Howard said.

Aden Ridgeway, spokesman for the National Indigenous Working Group, said the legislation was likely to be challenged in the High Court of Australia or in international courts.

"Indigenous peoples across Australia are deeply disappointed and angry about the decision that's been taken by parliament today to take away crucial rights on native title," he said.

Kim Beazley, leader of the opposition Labor Party, said: "We've got a legal mess in the making."

Nigerian ruler pays tribute to Abiola and appeals for calm

By Our International Staff

General Abdulsalam Abubakar, Nigeria's military ruler, yesterday paid a moving personal tribute to Moshood Abiola, the opposition leader who died unexpectedly on Tuesday when he was about to be released from jail, and appealed for calm in the wake of violent urban rioting.

In a national television broadcast, he promised to dedicate his government to national reconciliation, following the sudden deaths of both Chief Abiola and General Sani Abacha, his own predecessor as military head of state.

The appeal followed an announcement that the country's cabinet had been dissolved, as the military regime struggled to ride a wave of popular anger in the south of the country over the death of Chief Abiola. Up to 19 people were reported to have been killed in protests in Lagos and two other cities.

Gen Abubakar said he was postponing any announcement of his government's programme, which had been expected to include an extension of the October 1 deadline for a handover to civilian rule. Instead, he dedicated the broadcast to the death of Chief Abiola, who had been jailed since 1994 after emerging as the presumed victor of presidential elections in 1993.

"For me personally, and for the nation at large, this must be one of the saddest moments of our lives," he said. "His passing away was as sudden as it was tragic. He died on the brink of release from detention."

Without criticising his predecessor, Gen Abubakar said he was "aware of the imperatives of national reconciliation", and was also determined "to re-establish the professional image of the armed forces", a clear hint of his intention to hand over to civilian rule.

During the broadcast Gen Abubakar had been expected to reinforce his commitment to a handover by giving Olusegan Obasanjo, the country's former military leader, a leading role in a transition administration. He was released from detention last month and, like Abiola, is a Yoruba as were most of the youths involved in the rioting in Lagos.

Analysts said such an appointment might help defuse the violence following Abiola's death. He collapsed and died on Tuesday, shortly after meeting a visiting US delegation. Rioting yesterday hit Lagos and other towns in south-western Nigeria, the chief's political heartland, with protesters accusing the military government of murdering the tycoon. His death has officially been attributed to cardiac arrest.

Deaths were also reported in Abeokuta, Abiola's hometown, and Ibadan, Nigeria's second city, with suspected opponents of Abiola the main victims of attacks.

The government has promised a post mortem under international supervision.

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New Yorker editor Tina Brown, above with her husband, publisher Harold Evans, has quit the magazine after six years. Report, Page 7

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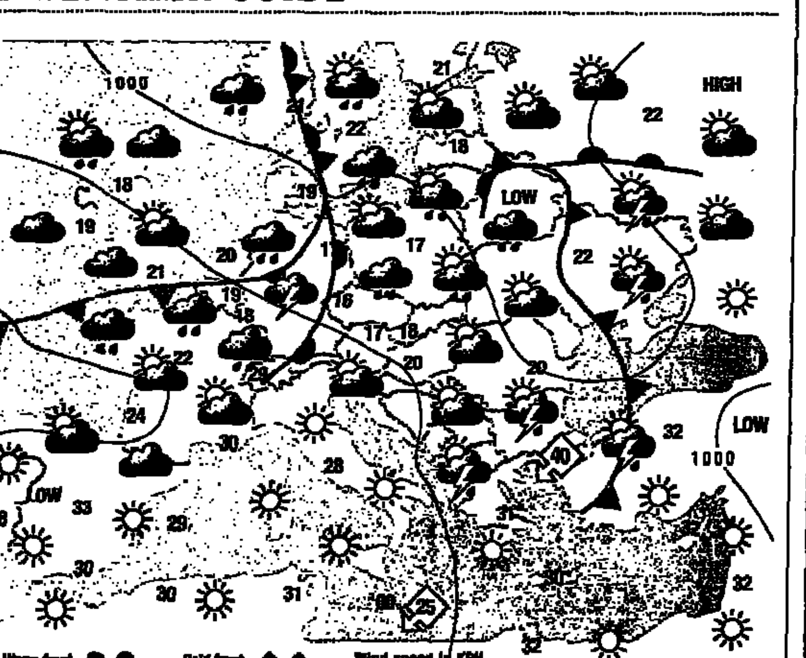
FT WEATHER GUIDE

Europe today
Thunderstorms and heavy rain will affect northern Greece and Turkey this morning, with storms in the Ukraine later. Central and north-western Europe will have rain advancing from the west, although France will be a brighter. Scandinavia will be showery, with more rain in southern Norway, Denmark and western Sweden, but the Baltic Sea coasts will have sunshine. Most of the Mediterranean will remain hot and sunny.

Five-day forecast
North-western Europe will remain unsettled and cool, as fresh westerly winds bring rain and showers. Scandinavia will turn warmer, but it will remain changeable. The northern Black Sea will be unsettled until Saturday. The Mediterranean will stay hot and sunny with temperatures above 40C (104F) in the south of the Iberian Peninsula by Sunday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	38
Accra	Fair	28
Algiers	Sun	30
Amsterdam	Rain	20
Athens	Fair	31
Atlanta	Thunder	35
B. Aires	Fair	21
B.ham	Cloudy	20
Bangkok	Thunder	34
Barcelona	Sun	27
Beijing	Sun	33
Belfast	Fair	18
Belgrade	Fair	21
Berlin	Shower	17
Bermuda	Thunder	30
Bogota	Thunder	18
Bombay	Thunder	32
Brussels	Rain	19
Budapest	Fair	18
C.hagen	Shower	19
Cairo	Sun	35
Caracas	Fair	32
Cardiff	Fair	18
Casablanca	Fair	25
Chicago	Fair	26
Cologne	Rain	19
Dakar	Sun	28
Dallas	Sun	39
Delhi	Fair	30
Dubai	Sun	38
Dublin	Shower	19
Dubrovnik	Sun	26
Edinburgh	Cloudy	19
Faro	Sun	29
Frankfurt	Rain	19
Geneva	Fair	21
Gibraltar	Sun	28
Glasgow	Shower	18
Hamburg	Rain	17
Helsinki	Thunder	21
Hong Kong	Thunder	34
Honolulu	Fair	31
Istanbul	Thunder	23
Jakarta	Fair	32
Jersey	Cloudy	20
Johannesburg	Cloudy	18
Karachi	Fair	37
Kuwait	Sun	44
L. Angeles	Fair	25
Las Palmas	Sun	27
Lima	Fair	22
Lisbon	Sun	28
London	Fair	21
Lux.bourg	Rain	18
Lyon	Fair	23
Madeira	Fair	25
Madrid	Sun	33
Majorca	Fair	28
Malta	Sun	30
Manchester	Cloudy	18
Manila	Thunder	32
Melbourne	Shower	11
Mexico City	Thunder	32
Miami	Thunder	34
Milan	Fair	29
Montreal	Shower	26
Moscow	Rain	22
Munich	Rain	17
Nairobi	Fair	26
Naples	Sun	29
Nassau	Thunder	34
New York	Thunder	29
Nice	Sun	30
Nicosia	Sun	32
Oslo	Shower	21
Paris	Fair	22
Perth	Fair	18
Prague	Rain	16
Rangoon	Thunder	31
Reykjavik	Fair	12
Rio	Rain	17
Rome	Sun	28
S. Frsco	Sun	21
Seoul	Shower	32
Singapore	Thunder	34
Stockholm	Fair	22
Strasbourg	Rain	20
Sydney	Sun	16
Tangier	Sun	28
Tel Aviv	Sun	32
Tokyo	Fair	30
Toronto	Fair	27
Vancouver	Fair	21
Venice	Sun	26
Vienna	Shower	17
Warsaw	Rain	17
Washington	Fair	32
Wellington	Rain	15
Winnipeg	Thunder	28
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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

ONA moves towards transparency
Fouad Filali has always been the envy of Morocco. He is the head of the kingdom's largest company, Omnium Nord Africain, in which the king remains the largest shareholder. He married the king's daughter, while his father has been prime minister three times and is now foreign minister. One of Mr Filali's main challenges since taking over ONA in 1988 has been to turn what was perceived as an all-powerful and secretive royal investment vehicle into a more transparent company. Page 18

Gold prospectors face hard times
Canadian prospectors who headed to Mexico when its mining industry opened to foreigners are finding life hard in the mountains of the Sierra Madre. Gold prices are at their lowest levels in 25 years and investors are reluctant to lend money in the wake of the Bre-X scandal. So some companies are looking for silver and other associated metals instead. Page 26

Retailers suffer reversal of fortunes
It is no fun being a UK retailer these days. Investors don't like them, nor do consumers, and economists are gloomy about their prospects. The most obvious cause of the reversal of fortune is the absence of last year's windfall bonus payments. The question is whether the downturn has gone beyond the absence of windfalls. Page 21

Downturn cements consolidation
India's cement industry is entering a new phase of consolidation that could end with a handful of big national groups dominating the currently fragmented sector. It is the first sign that India's economic downturn is driving forward restructuring of heavy industry. Consolidation may follow in other sectors. Page 17

The banking merger that delivered
Less than 18 months ago, when Morgan Stanley merged with Dean Witter, the reaction on Wall Street was one of shock. Now the notion of a top investment bank wedding a large retail brokerage seems almost mundane. MSDW has delivered the promised boost in revenues and its share price has risen 126 per cent since the merger was approved by shareholders in May 1997. Page 20

LME foresees sharp fall in turnover
Turnover on the London Metal Exchange, which has soared 1,000 per cent in the past 10 years, will fall substantially in 1998, at a time when its costs are rising rapidly. However, the downturn in activity was expected because of falling metals prices, said David King, chief executive. Page 26

Skanska chief aims for growth
Claes Björk, chief executive of Skanska, the Swedish construction group, has had a turbulent first year. He purged senior management and cut jobs, put Skanska's SKr11bn ($1.4bn) investment portfolio up for sale, while almost half of Skanska's real estate holdings, worth SKr10bn, were spun off to shareholders. Mr Björk was also confronted with Skanska's worst environmental accident. Now he aims to switch Skanska's sights from restructuring to growth. Page 16

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WorldCom-MCI deal nears close

EU gives go-ahead after agreement on internet interest

By Richard Waters in New York and Samer Iskandar in Brussels

WorldCom's $37bn takeover of MCI Communications looks set to be completed before the end of next month after it cleared what is likely to be its biggest regulatory hurdle yesterday.

The green light for the deal came from Brussels, where European Union anti-trust regulators announced they had reached an agreement with the two companies over the disposal of all of MCI's internet activities.

EU regulators had been concerned that overlaps between the two companies' activities would result in a significant reduction in competition in the global market for internet access.

In some segments of the internet business, the combined entity would have controlled a market share of "some 50 per cent", the European Commission, the executive arm of the EU, said yesterday. To reduce that risk, the commission said, MCI had agreed to dispose of all of its internet activities before the deal is completed. The company had earlier reached an agreement to sell part of the operation to Cable & Wireless, but this was ruled inadequate by Brussels.

The approval from Europe is expected to lead to quick approval from the US Department of Justice, perhaps as early as next week. The American regulator is expected to impose similar conditions to the commission's, since the two anti-trust authorities co-operated closely during their investigations.

The commission took the lead in announcing the agreement since its investigation has been tied to a more rigid timetable.

The deal also needs the approval of the Federal Communications Commission, which must review it on broad public interest grounds, though this is widely seen as a formality once the anti-trust reviews are completed.

Referring to MCI's agreement to sell all its internet business, the commission said: "The proposed remedies [must be] sufficient to enable the acquirer to take over the position of MCI as a player in this market." The sale to Cable & Wireless would have included only MCI's internet network assets and its so-called "wholesale" business, carrying traffic for other internet service providers. The new agreement with the EU also includes disposal of its "retail" activities, which involve selling internet services directly to corporate and residential customers.

The culmination of the deal would bring an end to one of the most bitter takeover sagas seen in the US in recent years, while touching off a new round of discussions about alliances among telecommunications companies in the US.

Completion of the deal will set British Telecommunications, MCI's former partner, free to pursue other partnerships in the world's biggest telecoms market. BT, which will receive around $7.5bn in cash from the sale of its 20 per cent stake in MCI, had agreed not to form other partnerships until the acquisition was completed.

chief executive Bernard J Ebbers — Picture: Reuters

Margins squeezed in farm equipment industry

By Peter Marsh in London

New Holland, one of the world's four biggest manufacturers of farm machinery, yesterday warned that tougher competition in the industry was eating into profit margins.

The warning underlines possible difficulties ahead for other companies in the sector, which has experienced strong growth in recent years on the back of buoyant markets for agricultural equipment.

New Holland, in which Fiat, the Italian automotive and industrial group, has a majority share, said the recent drop in sales in Asia had been "sharper than expected", while markets in Africa and the Middle East had also declined.

Umberto Quadrino, New Holland's chief executive, told analysts that these factors, together with a forecast decline in sales in Europe, had offset a strong period of sales growth in North America.

Net revenues in the first half of 1998 would be "in line" with the $3.2bn recorded last year, while the figure for the second quarter would be down slightly on last year. New Holland said "competitive discounting" by other suppliers was a key factor.

The other three big makers of farm equipment are Deere, Case and Agco, all of the US.

While New Holland said earnings per share in the first half of 1998 would be slightly above last year's $1.56, the statement was interpreted as indicating that profits may come under pressure in the second half.

New Holland's statement came after other signs of weakening in key markets for farm machinery.

World sales of the equipment total about $43bn a year, of which about half is tractors and the rest other machinery such as combine harvesters and baling systems.

Although Asia, including India and China, accounts for only about 11 per cent of the world market, farm machinery makers had been counting on the region to provide steady growth in the next few years, to compensate for expected sluggishness in North America and Europe. The financial crisis in Asia has caused observers to reduce their forecasts for the region.

Club Med out of red after revamp

By Andrew Jack in Paris

Club Méditerranée, the French holiday village operator that has undergone heavy restructuring, climbed out of the red yesterday with first half profits of FFr132m ($22m) in the six months to April 30.

The return to profit came after the effect in the first half last year of exceptional charges of FFr359m, which pushed the group into losses of FFr413m in the period.

The company stressed that the results did not reflect fully the effects of the restructuring that has taken place since the spring of 1997 when Philippe Bourguignon, the former head of the Eurodisney theme park, replaced Serge Trigano as chairman.

The plan involves a new commercial policy which begins this summer. It includes a change in pricing with some reductions on holiday packages.

The company has launched a new marketing campaign and invested heavily in the renovation of villages, closing some and opening others. It is also seeking to enhance its brand name. Although the measures have not yet produced all their anticipated benefits, Club Med drew attention to a rise in operating profits to FFr236m in the first half, compared with FFr222m last time, before taking account of FFr138m in non-recurrent charges.

Mr Bourguignon said the results for the summer so far appeared "satisfying", and a positive contribution from the Club's European and African division should help offset the economic crisis in Asia.

The number of days spent by clients in the Club's villages rose from 4.1m to 4.27m, and the rate of occupation from 71.6 per cent to 71.9 per cent. Turnover increased slightly to FFr4.02bn (FFr3.9bn).

The company said the modest increase reflected a drop in sales linked to the sale of its City Club activities, offset by a rise in the dollar. At constant exchange rates and in comparable terms, turnover rose 3.3 per cent.

There was an exceptional profit of FFr26m on the sale of Club Med One, one of the company's two cruise ships, which it sold last year to concentrate on its core holiday villages.

Following the group's restructuring last year, Club Med's capital stood at FFr3.09bn with net debt of FFr1.67bn.

Motorola shares drop after results warning

Job cuts and consolidation fail to halt effects of Asia crisis

By Louise Kehoe in San Francisco

Motorola's shares dropped in early trading yesterday after the communications equipment and semiconductor manufacturer warned it expected only break-even operating results in the third quarter, despite job cuts and consolidation of manufacturing operations.

Third quarter operating performance would be similar to that of the second quarter as the group continued to battle against weaknesses in its mobile telecommunications operations and the effects of the Asia crisis, said Robert Growney, president and chief operating officer.

The company's shares, which had traded above $56 in after-hours trading on Tuesday, were down $1½ from Tuesday's official close at $53⅞ in mid session yesterday.

After the close of trading on Tuesday, Motorola reported second quarter operating earnings of just 1 cent a share, against 64 cents a share in the same period last year. Total sales for the second quarter were $7.0bn, down 7 per cent from $7.5bn a year earlier.

Although second quarter operating results were slightly better than Wall Street's projections of a 4 cent per share loss, the company's pessimism about its largest businesses cellular telephone equipment and semiconductors – took analysts by surprise.

Motorola was experiencing "severe pricing pressure" in its equipment businesses as well as in semiconductors, said Mr Growney, largely as a result of economic problems in Asia which have dulled demand in that region and driven down export prices of competing products from Asian producers. These pressures were likely to intensify in the third quarter, offsetting any savings the company might achieve through restructuring, Motorola said.

As expected, the company took a second quarter restructuring charge of $1.91bn, before taxes, or $2.23 a share after tax, as it moved to consolidate manufacturing operations. This brought second quarter losses to $1.3bn, or $2.22 a share, compared with net earnings of $268m, or 44 cents a share, in the second quarter of 1997.

Mr Growney said Motorola had reduced its workforce by 2,200 during the second quarter. Moves to consolidate manufacturing sites, with the loss of an additional 6,700 jobs, were under way. The company aimed to reduce annual costs by $750m.

Although most analysts are forecasting a recovery in the semiconductor market next year, Mr Growney said: "We do not see any signs of an immediate recovery."

Wall Street analysts had been projecting third quarter earnings of about 15-18 cents a share, but several reduced their estimates following Mr Growney's remarks.

LONDON AND FRANKFURT PUT DEADLINE ON FIRST PHASE OF ALLIANCE

Linking exchanges get down to details

By Simon Davies, Capital Markets Editor

After the excitement of pronouncing their union, the London and Frankfurt stock exchanges were yesterday getting on with the less glamorous business of fixing the plumbing that will link them by next year.

The first phase – in which investors in London will be discouraged from January 4 1999 from trading German stocks through the London stock exchange, and vice versa for Frankfurt – is the only one to carry a fixed deadline, and looks relatively easy to achieve.

But it will still leave the two markets a long way from the ultimate aim they declared on Tuesday of creating a single European equity market.

"There are likely to be more significant difficulties than meet the eye" in achieving that aim, said Stefano Preda, the chairman of Milan's exchange, yesterday.

The first phase is a result of the decision to concentrate price formation of German stocks in Germany to encourage a single point of liquidity for blue chips in each country. By the same deadline, members of one exchange will get membership of the other.

Both exchanges are anxious to emphasise the mutual benefits of the alliance, but in this regard Frankfurt emerges a clear winner. London traded £170.3bn ($284bn) of German stocks last year, compared with the Deutsche Börse's £2bn of turnover in UK stocks, at current interest rates.

> "Someone can go to their broker and deal in either British Telecom or Deutsche Telekom with similar ease" – Martin Wheatley, a member of both the LSE management committee and the project board responsible for achieving the new market.

By July next year, the exchanges claim that even if they are joined by other exchanges, they will have harmonised the rule books governing the mechanics of trading. That would mean a single set of trading hours, the same market conventions, and the same level of transparency.

Martin Wheatley, a member of both the LSE management committee and the project board responsible for achieving the new market, argues that at this stage the markets will look and feel the same.

Moreover, one trading terminal should be able to access both markets, even though the orders would go through to the two different trading systems – Sets for London and Xetra for Frankfurt. "That is the point where someone can go to their broker and deal in either British Telecom or Deutsche Telekom with similar ease," says Mr Wheatley.

It is at this stage that other European exchanges could most easily be folded into the alliance, which would start to become difficult to disband.

This would still be a long way from the end-game of a system whereby investors can trade in Europe's 350 biggest, or most liquid, companies with equal ease and cost in London, Frankfurt, Paris or Milan.

This ambition comes without a timetable. It will require decisions on how to create a new generation trading platform to handle this vast new blue chip stock market.

Both London and Frankfurt are adamant it is not a question of deciding which of their trading systems is best and jettisoning the other. But there will inevitably be arguments about what will form the basis for the trading platform.

There will also be the political minefield of resolving differences in listing regulations, takeover codes and accounting regimes. However, pressure from the institutional investors and investment banks that support Europe's exchanges makes it more likely that the alliance will be made to work.

FINANCIAL SERVICES LAWYERS FOR SHAREHOLDER GROUP VOW TO FIGHT ON

Appeal court backs KBC over merger

By Neil Buckley in Brussels

Lawyers for a shareholder group last night vowed to continue their challenge to the merger that created KBC, the Belgian financial services giant, after the appeal court overturned a legal decision last week to suspend the merger.

KBC, Belgium's biggest company by market capitalisation – formed by the merger of Kredietbank, Belgium's second-biggest bank, Cera bank, a co-operative bank, and ABB, an insurance group – said it was "very happy" with the ruling.

The appeal court lifted the suspension imposed last week by a Brussels commercial court in response to a challenge by a syndicate of Cera co-operative shareholders. The appeal court said the shareholders were unjustly trying to raise the amount they received for their co-operative shares in Cera Bank.

The case is one of the highest-profile examples yet of shareholder action, in a country where the concept of shareholder rights remains poorly developed.

It has also inflamed tensions between Belgium's francophone and Dutch-speaking communities, since KBC is the dominant financial group in Flanders, Belgium's Dutch-speaking northern half. It is set to be overtaken as Belgium's biggest financial institution by the merger of Fortis, the Belgo-Dutch insurance group, and Générale de Banque, the country's biggest bank.

However, Mischael Modrikamen of Brussels legal firm Modrikamen, representing 200 Cera shareholders, insisted the request for suspension of the KBC merger was only a "provisional measure". His group would proceed with a more substantial challenge.

"The court of appeal decision has closed the first step, which was a summary proceeding," he said. "But now the grand claim starts."

Mr Modrikamen said he planned legal action to seek cancellation of the merger, and was examining the possibility of legal proceedings against the board.

The Cera co-operative shareholders say they were deprived of their legal right to vote on the merger, since a general meeting of shareholders was not properly convened. They also say they were discriminated against because the merger valued their shares at their nominal price of BFr1,000 against Modrikamen's estimate of their true worth of BFr13,000.

KBC insists the shareholder meeting was legally convened, bringing together 207 representatives of local shareholder assemblies, representing all 500,000 shareholders.

Skanska chief builds on his experience of US market

Swedish construction group has grown by acquiring small companies and allowing them to operate autonomously, says **Greg McIvor**

After 26 years abroad, Claes Björk was something of a dark horse when he was promoted from the US division of Skanska, the Swedish construction group, to become chief executive a year ago.

However, if his face was unfamiliar among staff at company headquarters in Stockholm, it took him little time to make his presence felt. Within weeks, Mr Björk initiated a sweeping review of Skanska's structure and strategy, purging senior management and announcing job losses.

The company's seven divisions were replaced by four new ones, headed by a quartet of young executives. Some 1,500 construction-related jobs were cut in Sweden, including white-collar posts. One-quarter of Skanska's 160 local offices in Sweden were shut.

In an attempt to inject some spice into Skanska's somnolent share price, which has lagged the Stockholm market for more than six years, Mr Björk put Skanska's SKr11bn ($1.4bn) investment portfolio up for sale, pledging a more rigorous focus on core construction and property development operations.

At the same time, almost half of Skanska's real estate holdings, worth SKr10bn, were spun off to shareholders as Mr Björk moved to placate institutions who had demanded Skanska slim its property investment portfolio.

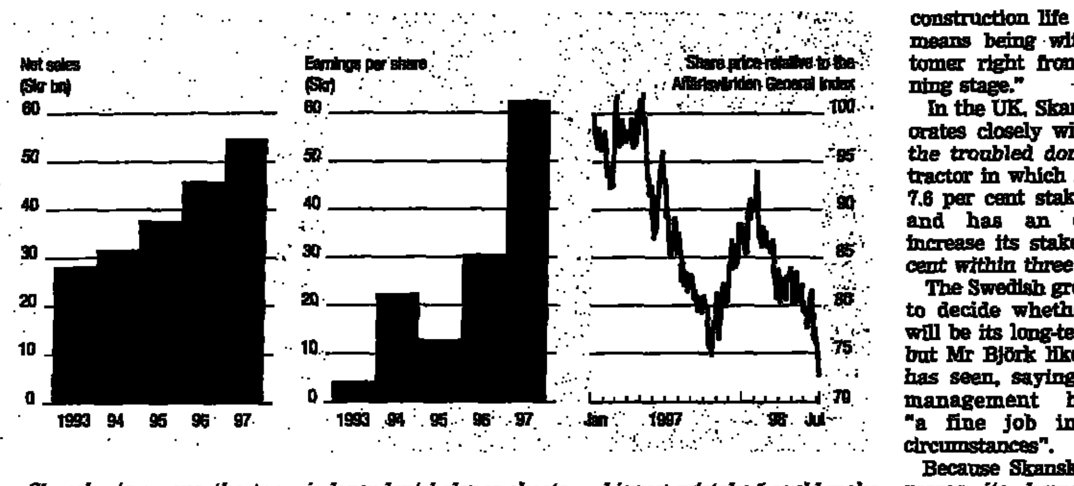
Mr Björk was also simultaneously confronted with Skanska's worst environmental accident.

The company's use of a controversial toxic sealant during construction of a railway tunnel in Sweden seriously polluted ground water supplies in the area, causing contamination among some Skanska workers and farm animals. Legal actions for damages are pending.

After the turbulence of his first year, Mr Björk aims now to switch Skanska's sights from restructuring to growth. In construction – accounting for 80 per cent of turnover – the aim is to expand chiefly in two markets: the US and the UK.

Profile **Skanska**

Market capitalisation (\$bn)	4.6
Main listing	Stockholm
Historic P/E	5.67
Gross Yield (%)	3.1
Earnings per share (Skr)	62.6
Current share price (Skr)	357



Source: Company, Datastream, Reuters

Skanska is among the top 10 construction groups in the US and is the third largest building contractor, but still controls less than 1 per cent of the market and is largely confined to New York.

"Most of our work is east of the Mississippi. We have a huge market still ahead of us," Mr Björk says.

After more than a quarter of a century at Skanska's US subsidiary, including 12 years as president, he has a special affinity for the market.

His recipe has been to acquire small, locally-based construction companies. Rather than subsuming them into the group, Skanska allows the acquired companies to operate largely autonomously and with independent balance sheets.

"Construction companies are very much run by entrepreneurs and you have to give entrepreneurs some leeway while still being in control," he says.

The strategy has certainly paid off. Revenues have climbed rapidly, advancing 38 per cent in 1997 to SKr15.4bn. The US is now Skanska's largest single market.

"Mr Björk has been very astute," says Mike Betts, European building specialist at Goldman Sachs in London. "A lot of people have come to grief in the US but [Skanska] has performed very well by pursuing small acquisitions and organic growth."

The softly-softly approach is likely to continue. "The biggest mistake I could make would be to force the pace," Mr Björk says, making clear that he is wary of making big US acquisitions.

Nevertheless, he would be prepared to expand Skanska's business into the oil, gas and power construction sector, as well as post-construction property development.

Broadening Skanska's core businesses in this way to embrace construction-related services such as property design, financing and building maintenance is a pillar of Mr Björk's growth strategy.

"If you are too big and too narrowly focused, you are too vulnerable to the economic cycle," he says. "We want to be part of the entire construction life cycle. That means being with the customer right from the planning stage."

In the UK, Skanska collaborates closely with Costain, the troubled domestic contractor in which it bought a 7.6 per cent stake last year and has an option to increase its stake to 40 per cent within three years.

The Swedish group has yet to decide whether Costain will be its long-term partner but Mr Björk likes what he has seen, saying Costain's management has done "a fine job in difficult circumstances".

Because Skanska has outgrown its home market, where it is by far the biggest contractor, it must devote the bulk of its efforts to foreign expansion. It is expanding its real estate development business into Finland and Denmark as well as in eastern Europe.

But like all construction groups, Skanska, is at the mercy of macroeconomic trends.

Current omens could be better. Factory output declines have brought the UK to the brink of recession; the US construction market is in its seventh year of recovery and, say analysts, near the peak of its cycle. Mr Björk may yet find himself grateful for Skanska's strong Swedish base, where a revival in the construction sector is overdue.

IBM and STMicroelectronics in chip link-up

By Paul Taylor

STMicroelectronics, the Franco-Italian semiconductor group, and International Business Machines of the US said yesterday they planned to work together to develop advanced "system-on-a-chip" products.

The companies have agreed to jointly develop integrated circuits for current and future data storage applications and low-cost "information appliances", such as Web browsers and hand-held computers.

Analysts say the ability to place multiple-function systems on a single chip is the key to future advances in the semiconductor industry. The link-up puts the companies at the forefront of these developments.

The deal will give the European group access to IBM's PowerPC technology, while IBM will gain access to STM's leadership in next-generation DSPs for hard disk drives and CMOS read-channel technologies.

Under the agreement, the companies will combine their design capabilities to introduce new system-on-a-chip ICs to address the expanding data storage market. The link-up will also allow IBM and STMicroelectronics to develop chips for new low-cost information and multimedia appliances.

According to Dataquest, the market researcher, there were about 130m hard disk drives shipped last year. That is expected to grow to almost 220m in 2000. Dataquest also forecasts that the market for embedded microprocessors will grow from $3bn in 1998 to $5bn in 2001.

"We are at the beginning of a revolution that will deliver multimedia and information services to a huge audience, and our partnership with IBM will help accelerate this movement by developing system-on-a-chip products that meet mass-market price/performance demands," said Pasquale Pistorio, STM chief executive.

"This agreement clearly positions both companies ahead of their competitors to deliver the best integrated circuits for hard disk drives, and also the new ICs for advanced information appliances, that are possible only thanks to our combined system-on-a-chip IP, technologies, and products."

SGB sells 55% of Recticel

By Neil Buckley in Brussels

Société Générale de Belgique, Belgium's biggest holding company, is selling 55 per cent of Recticel, the polyurethane foam business, to a management-led group for BFr5.6bn ($150m).

The sale further reduces SGB's traditional manufacturing interests. It leaves it even more heavily focused on Tractebel, the energy group of which it owns 50.3 per cent, and Fortis, the financial services group which is acquiring Générale de Banque, Belgium's biggest bank.

The deal comes as Suez Lyonnaise des Eaux, the French utility giant, is increasing its ownership in SGB from 63.4 per cent to 100 per cent – to increase its stake in Tractebel.

The Belgian holding company had insisted the Suez move would not be immediately followed by the sale of remaining industrial stakes. It said yesterday Recticel's management had presented an attractive proposal guaranteeing a stable shareholder structure for the company for five years.

Luc Vansteenkiste, Recticel chief executive, will lead the investor group, Rec-Hold, which includes several Belgian corporate and family investors. It is acquiring 55 per cent, with an option to buy 5 per cent at the same price until September 30, and another 5 per cent within five years. That would reduce SGB's stake from 70 to 5 per cent.

SGB said it would book a BFr500m capital gain on the initial sale.

Italian bank may securitise problem loans

By James Blitz in Rome

Banca di Roma, one of Italy's largest commercial banking groups, may securitise its non-performing loans in a move to improve its asset quality.

Just weeks after it failed in its high-profile attempt to merge with Banca Commerciale Italiana, senior figures at Banca di Roma have indicated that a deal to securitise bad loans through specialist institutions is being considered.

At June 1997, Banca di Roma had about L10,000bn ($5.6bn) of gross problem loans, equivalent to about 16 per cent of its lending portfolio. The size of the non-performing portfolio has been the focus of concern over asset quality at the bank, although the group's management insists that a turnround is now under way.

Giorgio Brambilla, chief executive, said yesterday that a securitisation of some of the loans – involving L1,500bn of assets – was being looked at. "It is a project under consideration, it's something interesting."

Other figures close to the bank suggested yesterday that considerable progress had been made with a deal on securitisation and that an announcement could be made soon.

Securitisation of non-performing bank loans is a common practice in international banking. It would involve one or more institutions purchasing the problem loans by means of a bond on which a coupon is paid by Banca di Roma.

Although Banca di Roma's specific proposals are unknown, officials close to the bank said it was likely that the bonds would be backed by collateral in the form of the bank's large real estate holdings.

"What's in it for Banca di Roma is that it gets a cash injection from the asset securitisation and a better-looking balance sheet," said one official. "For the investors, meanwhile, such deals can have a good upside."

Questions have been asked within the Italian banking sector about Banca di Roma's future after it failed in its bid to merge with BCI earlier this year. The industry has seen extensive consolidation over the last year, but the Rome-based bank has been a notable absentee from the process.

The bank, led by Cesare Geronzi, has undertaken a series of internal reforms after raising L2,800bn last autumn in a share offer and convertible bond issue.

Its non-performing loans were built up over many years, partly because of political interference in the bank's operations during the 1980s.

US decision on Seagram deal expected

By Alice Rawsthorn

Seagram, the Canadian drinks and entertainment group, should be told by the end of next week whether the US Justice Department will approve its proposed $10.4bn acquisition of PolyGram, the Dutch music group.

If the Justice Department decides the deal requires further investigation, it will start a second review of the transaction – the most expensive takeover in music industry history – which could delay completion for several months.

A prolonged delay may prove destabilising for both PolyGram's music interests and for Seagram's Universal Music subsidiary, with which they are to be merged.

Seagram has already renegotiated the price of the acquisition to $200m less than the original $10.6bn, because of the deterioration in PolyGram's performance since it was announced. PolyGram failed to meet its management's original estimates for the second quarter of 1998, partly because of the uncertainty caused by the proposed takeover.

The acquisition cannot be completed until it has been cleared with both the Justice Department and the European Commission. Seagram will only be able to start the process of merging the two companies, with the aim of reducing their combined annual overheads by up to $300m within two years, after securing clearance.

Seagram has had to supply detailed financial information about PolyGram and Universal Music to the Justice Department and the European Commission. The two bodies will also canvas the opinions of third parties, such as competitors, suppliers and retail customers.

Analysts believe that Seagram should be able to clear the deal in Europe, with the possible exception of France, where the two companies would command more than 35 per cent of record sales. PolyGram is already Europe's largest record company, but Universal has a relatively low market share there.

However, clearance may prove more problematic in the US, where PolyGram and Universal collectively account for nearly 25 per cent of record sales. The US anti-trust authorities blocked a proposed 1984 merger of PolyGram with Warner Music, when those companies had a similar combined market share.

Opposition from rival US record labels is believed to have been one of the principal obstacles to the 1984 deal, which also faced anti-trust problems in Germany.

Publicly, PolyGram and Universal's competitors say they will not try to block this merger, but behind the scenes, they may attempt to delay it and thereby unsettle the two companies.

STOCKBROKING JARDINE FLEMING REVAMPS

HK bank in shake-up of Asia division

By Louise Lucas in Hong Kong

Jardine Fleming has tightened control over its Asian stockbroking franchise, drawing a clearer distinction between itself and co-parent Robert Fleming, of the UK.

As part of the internal reorganisation, Duncan Ross, UK country manager, will move to Hong Kong to assume the new role of head of global Asian sales, and John Donald, the group's research head, is leaving.

Mr Donald, who has been with Jardine Fleming in Asia for the past decade, will be replaced by Andrew Houston, who will also continue as head of strategy.

Any further cuts will be in administrative and back-office roles, Christopher Rampton, head of stockbroking, said. Last month Jardine Fleming's fund management arm shed 38 of its Hong Kong staff, mainly in administration and sales and marketing.

Some observers suggested the move increased the likelihood of a shareholder restructuring, but Jardine Fleming said it did the opposite, being triggered by an acceptance that no such change was going to occur in the short term.

Mr Rampton said: "There has historically been some suggestion that Robert Fleming and Jardine Matheson would somehow come to a deal that would unite Robert Fleming and Jardine Fleming under one shareholding.

"That clearly was not going to happen in a hurry. By this time last year, when that became clear, it was clear we should set about organising our own business, recognising it had two shareholders but also that it could be a single business."

With the creation of a single headquarters for the securities business, operations in which duplication occurred – for example settlements, which were previously carried out in Asia, London and New York – can be streamlined. "It's cost-effective and, more importantly, it's management-effective," he said.

It also gives Jardine Fleming greater jurisdiction over staff who previously came under Robert Fleming, such as Mr Ross, who is now on the former's payroll and can be deployed where Jardine Fleming believes is most appropriate.

"Robert Fleming is an investment bank in its own right, with an import department importing product from the Far East and on-selling it, while we are set up to service local communities and export product to clients around the world.

"It's inefficient and not the best way to have two or three totally different sets of management running the business. So we have streamlined that," Mr Rampton said.

"In a very aggressive environment, we really do need to constantly walk around the ship and check the crew and make sure it's fit. There's no point looking back at what's worked for the last five years: we must make sure we have what will work for the next five."

Consolidation firms up in Indian cement

Producers are now pursuing growth through acquisitions, writes Krishna Guha

India's cement industry is entering a new phase of consolidation which could end with a handful of big national groups dominating the currently fragmented sector.

It is the first clear indication that India's economic downturn is driving forward restructuring of heavy industry, and that consolidation may follow in other sectors.

This week Grasim Industries, flagship of the Aditya Birla group, bought a controlling stake in Shree Digvijay Cement, its second cement deal in a matter of months. "We are looking at growth through acquisitions," said Kumar Mangalam Birla, chairman of Grasim.

He said the deal, which valued Shree Digvijay at about Rs2.9bn ($68m), compared favourably with the cost of building a similar cement plant at about Rs5.5bn.

"This is a process one will see more of in the near future," added Mr Birla. "We see ourselves as playing a very active part in it."

Grasim's buying spree is the latest in a string of similar deals. Earlier this year, India Cements won control of Raasi Cement in a rare hostile takeover. Gujarat Ambuja, which last year took over Modi Cement, is said to be considering further offers. Even Larsen & Toubro, which has to date chosen to build modern greenfield plants, has called a halt to its construction programme in favour of future acquisitions.

"Having created a lot of new capacity in the last two or three years, we are not that keen to expand further," said S. D. Kulkarni, managing director of L&T. "But if we have an attractive proposition we would consider it. We are not averse to acquisition as a way of expansion."

Consolidation is only just beginning. India still has 55 cement companies, compared with about a dozen in most big Asian economies. Industry leaders say this will fall to between five and 12 large groups over the next three to five years.

The process is being driven by India's economic slowdown. Low growth and overcapacity have brought falling prices – down 7 per cent on average last year – at a time when state-controlled power, fuel and freight costs are rising. For the first time in the industry's history, uncompetitive producers are struggling to stay afloat.

"Earlier it was just a matter of building empires and owning assets," said Anil Singhvi, treasurer of Gujarat Ambuja. "Now the challenge is making money out of that asset – and making money in cement is increasingly difficult."

Small companies, with weak buying power, high cost of funds and limited distribution, are finding it difficult to compete with large groups that have expanded and modernised. "It is putting pressure on margins," said Mr Singhvi. "That is why we are seeing asset sales."

The big cement groups can now acquire distressed assets for much less than the cost of greenfield projects. Acquisition provides growth in a slow market and avoids aggravating industry-wide oversupply.

Medium-sized single-plant companies are the most attractive takeover targets. Industrialists say it is not worth acquiring plants with annual capacity of less than 1m tonnes – the minimum that is economically viable.

The industry leaders are also using acquisitions to expand their geographic reach. Mr Birla said Gujarat-based Shree Digvijay would increase Grasim's market share from 6.2 per cent to 15.5 per cent in the state.

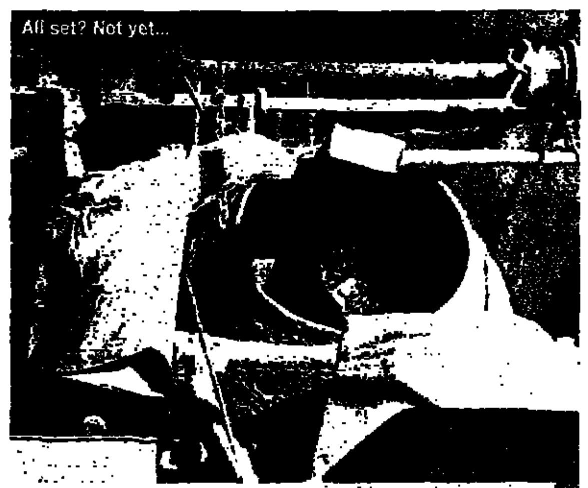
Regional groups are spreading their area of activity and may ultimately evolve into nationwide operators. Grasim, for instance, aims to be active at a national level, while India Cements seeks to dominate the south of India.

By contrast, the market for cement is likely to remain regional, with big price differences due to the high cost of freight. Analysts say consolidation may one day bring pricing power – the holy grail for this battered sector and a long-term alternative to cartels. But it carries a financial cost and will not itself deliver a recovery unless India's economy picks up.

In the meantime, attention is turning to Associated Cement Companies, India's colossal aggregation of mainly small cement plants, part owned by the Tata family and Shapoor Pallonji, its chairman.

ACC, which recorded an 83 per cent fall in profits for the year to March 31, is handicapped by old-fashioned technology, small-scale production and the location of its plants, which are mostly in the interior, far from India's growth areas.

Short of a big shake-up of its shareholding and management, ACC looks doomed to slip slowly down the rankings of the industry it once dominated. Investment bankers suggest that, one day, ACC could become a takeover target itself.



Rank	Capacity (million tonnes per annum)
1 Associated Cement Companies	11.00
2 Larsen and Toubro	*10.65
3 Grasim Industries	**7.45
4 Gujarat Ambuja	6.50
5 India Cements	5.80

Source: companies, analysts estimates. * includes new 1.75m tonnes plant. ** includes Dharani and Shree Digvijay cement - total capacity of Aditya Birla group 10.65m tonnes

NEWS DIGEST

INVESTMENT MANAGEMENT

US-Indian joint venture may hire Caspian staff

ASK-Raymond James, the Indian joint venture of a US securities house, is in talks which could lead to its hiring some of the local staff of Caspian Securities, the emerging markets investment bank which has decided to close.

Caspian said last month it was selling or closing all its businesses, which include offices in New York and London, as well as operations in Asia, Latin America and eastern Europe. Since then, most of its 350 staff have been given notice, as hopes of sales to other companies have receded.

In Bombay, however, John Band, chief executive of ASK-RJ, confirmed his firm was in talks with Caspian. People familiar with the negotiations said ASK-RJ might pay a nominal sum for part of the Caspian business.

ASK-RJ is owned by Raymond James Financial, a Florida-based financial services group, and Asit Koticha, an Indian broker. Formed in 1994, it has seats on the Bombay and National stock exchanges, where it acts as an agency broker. It manages $40m in assets for domestic and international clients.

Raymond James had previously withdrawn from talks about Caspian's Latin American operations.
Clay Harris, Banking Correspondent

AIRLINES

Moody's cuts ANA debt rating

Moody's, the US credit rating agency, yesterday lowered its debt rating of All Nippon Airways, Japan's largest domestic airline, from A3 to Baa3, one notch above "junk bond" status.

ANA is the second Japanese airline this year to be downgraded to Baa3 by Moody's. In May, the agency lowered its rating of Japan Air Lines' long-term debt because of concerns about its high operating costs.

The company's high cost structure was likely to inhibit ANA's ability to respond to increasingly competitive conditions, Moody's said. Deregulation has lowered landing fees and opened the market to new carriers.

ANA's operating costs are among the highest in the world, according to HSBC James Capel in Tokyo. Its operating costs per average seat mile are 14.8 cents, which compares with 8.6 cents at United Airlines, the US carrier.

The credit rating agency also said ANA's efforts to restructure by closing unprofitable hotels would not be sufficient to ensure its financial stability.

Last year, ANA reported losses of Y2.7bn ($19.6m), against earnings of Y3.9bn the year before. The company has been locked in a dispute with its pilots union over a proposed change in the wage system that would pay pilots only for hours worked, instead of a set monthly wage. Last month, the union called off a strike temporarily, but the dispute has not yet been resolved. **Alexandra Harney, Tokyo**

TOURISM

ATG pulls out of debt deal

Australian Tourism Group, the hotel operator, has withdrawn from debt moratorium arrangements for the Reef Casino Trust, which owns the Reef Hotel Casino in northern Queensland, and will no longer be leading the trust's search for new equity.

The financially-troubled Reef, which is 20 per cent owned by ATG, said yesterday that "an alternative proposal" was now being discussed with its financiers "in regards to a recapitalisation of the trust".

Last September a banking syndicate led by the ANZ Banking Group agreed to a 12-month moratorium on the repayment of debt owed by the trust. ATG also agreed at the time to provide additional security to the banking syndicate.

The trust said Casinos Austria International, which operates the Reef resort's casino operations, had indicated it would continue to support the moratorium arrangements. A meeting of Reef unitholders will be convened by the end of October to consider the fate of the trust.
Russell Baker, Sydney

TELECOMMUNICATIONS CONTRACT TO SUPPLY GSM CELLULAR NETWORK INCREASES SWEDISH GROUP'S FOOTHOLD IN MIDDLE EAST

Ericsson agrees $40m deal with Paltel

By Judy Dempsey in Tel Aviv

Ericsson, the Swedish telecoms group, said yesterday it had signed a $40m contract to supply a turnkey GSM cellular telephone network to Paltel, the Palestinian telecommunications company.

The deal, announced after long negotiations between Paltel and other suppliers including Motorola of the US and Nortel of Canada, is part of Ericsson's strategy of establishing a greater foothold in the Middle East.

Earlier this year, Ericsson won a $140m contract to provide the infrastructure to Israel's first GSM system – for the country's third cellular mobile operator.

The ministry of communications chose the Partner group to operate the GSM standard licence. It includes Hutchison of Hong Kong, and Israel's Matav and Matbit.

In the Palestinian Authority areas, Bo Andersson, president of Ericsson in Israel, said the company would provide GSM capacity initially to about 70,000 consumers by the end of the year, increasing the number to 100,000.

The region has a weak telecommunications network – a legacy of Israeli occupation – making the GSM network particularly important for the Palestinians.

In Israel, the connection to fixed lines is about 55 per 100 inhabitants, while until recently, Bezeq, Israel's state telecoms company, connected fewer than 3 per 100 Palestinians in Gaza and the West Bank.

Walid Irshaid, director general of Paltel, which has sole responsibility for the Palestinian Authority's telecommunications network, said the company had already increased the number of fixed lines from 83,000 to 118,000. Paltel is already coping with a 200,000-long waiting list.

With Ericsson building both infrastructures, Israel's frequency stations will cover most of the region, although the two systems will be parallel and separate.

"If Paltel wants to woo the Palestinian customer, it will have to offer a competitive price and move fast," an analyst said.

Ericsson has 50 per cent of the world's cellular mobile telephone system. Last year it had a net income of SKr11.9bn ($1.47bn) on sales of SKr167.7bn.

Omnium Nord Africain breaks with its fairy-tale past

Morocco's biggest conglomerate no longer has the royal affiliations and political connections it once had, writes **Roula Khalaf**

Fouad Filali, head of Omnium Nord Africain, Morocco's largest conglomerate, had plenty of reasons to be disappointed with Morroco's government change earlier this year. For one thing, his father, Abdelatif Filali, is no longer prime minister.

However, Mr Filali sees benefits – and some cost savings – in the arrival of a coalition government led by a left-leaning party which was always in opposition.

"The perception has been that ONA has too much power and that it always got its way," he says. "I'm a bit fed up with having to pay more for everything just because we're ONA."

Like the company he runs, 43-year-old Filali has always been the envy of Morocco and the target of much criticism. *Running the kingdom's* largest company – in which the king remains the largest shareholder – came in addition to marrying the king's daughter and having a father who has been three times prime minister (and is now foreign minister).

But one of Mr Filali's main challenges since taking over ONA in 1988 has been to turn what was perceived as an all-powerful and secretive royal investment vehicle into a more transparent company.

The royal family still has a big stake in the company, but the share has been reduced from 35 per cent in the 1980s to just under 14 per cent today. Foreign institutions now own about 10 per cent of shares, broadening the shareholder base.

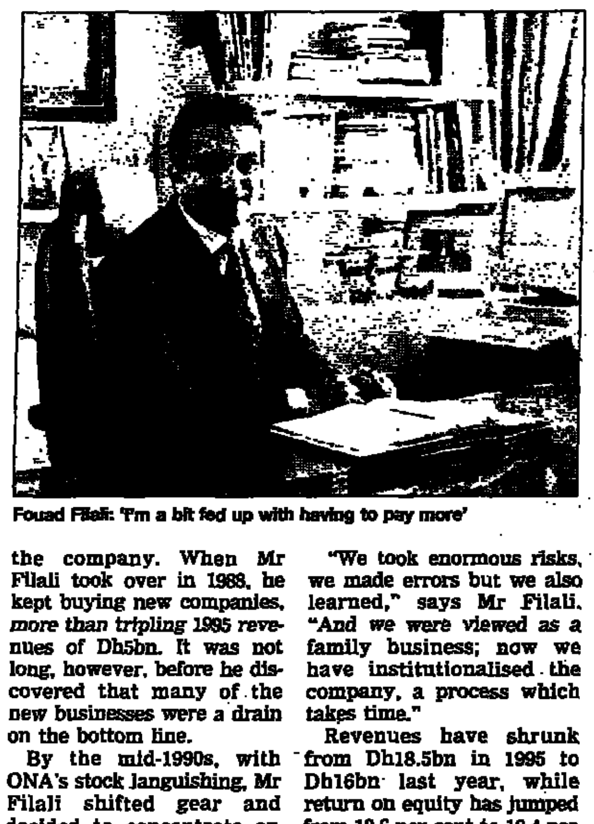
With its more modern, corporate approach, the boardroom remained unperturbed by Mr Filali's divorce from the king's daughter last summer. Defying widespread rumours of his imminent departure, *Mr Filali still* runs the company.

Described as a "fairy tale" company by romantic emerg*ing markets investors,* ONA, which has annual revenues of Dh16bn ($1.6bn), enjoys quasi-monopolies in refined *sugar, cooking oil, and dairy* products. It is made up of 80 businesses including mining, hypermarkets and financial *services.*

Accounting for more than 3 per cent of Moroccan gross national product, ONA has always been the centre of controversy. Under the French protectorate, it was the vehicle for colonial control over Morocco's resources. After independence in 1956, many of ONA's businesses were nationalised. A 40 per cent stake stayed with Paribas, the French bank, until the king bought most of the holding in 1980.

He then set out to expand the company. When Mr Filali took over in 1988, he kept buying new companies, *more than tripling* 1985 revenues of Dh5bn. It was not long, however, before he discovered that many of the new businesses were a drain on the bottom line.

By the mid-1990s, with ONA's stock languishing, Mr Filali shifted gear and decided to concentrate on enhancing shareholder value instead of size. This was a time when ONA was attracting the interest of financiers such as George Soros, and the first signs of Morocco's emerging market status started to appear.



Fouad Filali: 'I'm a bit fed up with having to pay more'

"We took enormous risks, we made errors but we also learned," says Mr Filali. "*And we were viewed as a* family business; now we have institutionalised the company, a process which takes time."

Revenues have shrunk from Dh18.5bn in 1995 to Dh16bn last year, while return on equity has jumped from 12.6 per cent to 18.4 per cent. Net gearing has been cut from nearly 37 per cent to 7 per cent last year.

Mr Filali now faces a different challenge: to convince investors he knows what to do next. Some criticise what they see as lack of direction and a concentration in volatile businesses like agribusiness and mining.

Others question whether Morocco's new government will make the necessary move of removing price controls on sugar and edible oil. Lifting the controls would improve the company's growth prospects in markets already affected by lacklustre consumption, and last year hit by a change in subsidies regulation.

Mr Filali brushes aside the concerns and says he will concentrate on core *businesses. In spite* of commitments to a social agenda, he says, the new government wants to privat*ise its own sugar plants* and attract investment into the industry so it will have little choice but to liberalise *prices and gradually remove* subsidies.

Mr Filali says his next moves will be to expand his insurance business through an acquisition. He is also planning to build two new hypermarkets in Rabat and Casablanca, markets where the company is already present. This, he says, will allow ONA to dominate the country's two main markets and thwart foreign competition.

ONA, he admits, has no intention of relinquishing its dominant market share. Morocco's association agreement with the European Union, signed in 1996, opened its markets to foreign competition (outside agriculture). Mr Filali sees no alternative but to consolidate his positions while focusing on cutting production costs.

The way the company is running its dairy products business is typical of ONA's strategy. Its Centrale Laitiere has 65 per cent of the market in processed milk and 80 per cent in derived milk products. To keep costs and prices down and insure captive suppliers, it is developing *close relationships* with dairy farmers, giving them incentives to produce better quality milk and eas*ing their access to finance.*

Although often urged by the government to help attract foreign direct invest*ment, Mr Filali has no inten*tion of acting as a minority partner to bring foreign companies in. However, to get critics off his back he has had to raise a $100m fund from largely Moroccan, Saudi and American investors, with the first $50m to be invested exclusively in Morocco.

"We're always asked to participate in putting money with people to attract foreign investment," he says. "We prefer to do it this way than be pushed by the government."

NEWS DIGEST

CARMAKING

Smart car venture expects operating profit by 2000

Micro Compact Car, the joint venture between Daimler-Benz *of Germany and the Swiss* watch and design group SMH, said yesterday it expected its Smart car business to make operating profits by 2000. Speaking on the eve of the pre-sale period, Lars Brorsen, chief executive, said the company *already had 23,000 pre-reservations for the Smart car,* which began production last week. The company is aiming for sales of 20,000 this year, rising to 200,000 by 2000.

The Smart will be the latest extension of the range of cars produced by *Mercedes, Daimler's carmaking unit,* which last year launched the compact A-Class vehicle. Both new vehicles suffered from stability problems which the company says have been rectified. MCC said improvements to the Smart, which is being targeted at young urban *singles, had* cost DM300m ($166m). Mr Brorsen said MCC planned to offer a speedy sales service for the Smart when it goes on sale to the public in September, six months later than planned. The aim was to offer licence plates, financing and vehicle papers within 15 minutes.

In a separate development, Nicholas *Hayek,* the inventor of the Smart and head of SMH, told a German magazine he was not happy with the car's *environmental standards and that he* "would have done some things differently". SMH holds 19 per cent of MCC and at times has had a tense relationship with Daimler. Mr Hayek, who came to international recognition in the 1980s with the development of the popular *Swatch range* of watches, said he planned to present his own version of an "eco car" which would use an electric motor for travel in urban areas and a petrol engine for longer journeys.
Frederick Stüdemann, Frankfurt

JOINT VENTURE

Renault, Matra plan new model

Renault, the French carmaker, said yesterday Matra, part of the Lagardère defence group which has developed a profitable division around the Espace multi-purpose vehicle, would sign a partnership on developing and marketing a new vehicle around 2000. *The vehicle "will not replace an existing model* but will enlarge the choice offered by Renault at the top of the range", Renault said. **AFX News, Paris**

ELECTRICITY

Unión Fenosa in sell-off talks

Unión Fenosa, the Spanish electricity group, said yesterday it was negotiating the sale of a 25 per cent stake in its planned generating unit, Unión Fenosa Generación. It said it was in talks with five foreign companies – EdF of France, Edison of Italy, National Power of the UK, and Enron and NRG Generating, both of the US. The company said no agreements had yet been reached. "If or when the strategic alliance takes place," the entire 25 per cent stake would be sold to one partner, it said. Fenosa's plan to create the unit follows the passage of a law earlier this year requiring companies in the sector to separate their distribution and generating activities.
AP-DJ, Madrid

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

½ hour period ending	Provisional Price for Trading on 09.07.98: Pool purchase price £/MWh	Final Prices for Trading on 11.06.98: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	14.37	13.17	12.97	1.02
0100	14.37	13.39	13.19	1.02
0130	14.37	13.17	12.97	1.02
0200	14.37	13.17	12.97	1.02
0230	14.37	13.17	12.97	1.02
0300	14.37	13.17	12.97	1.02
0330	14.37	13.17	12.97	1.02
0400	14.37	13.17	12.97	1.02
0430	14.37	13.12	12.92	1.02
0500	14.37	9.70	9.70	0.00
0530	14.24	9.56	9.56	0.00
0600	14.86	9.64	9.64	0.00
0630	14.86	9.86	9.86	0.00
0700	15.05	13.51	13.31	1.02
0730	15.38	18.63	18.54	1.02
0800	16.48	22.68	23.73	1.02
0830	17.16	27.01	29.10	1.02
0900	18.65	33.61	37.38	1.02
0930	24.42	41.50	46.39	1.02
1000	25.65	45.60	51.35	1.02
1030	26.82	49.37	56.07	1.02
1100	27.92	55.93	64.16	1.02
1130	29.37	68.32	78.72	1.02
1200	30.04	95.74	108.14	1.02
1230	29.38	93.57	105.24	1.02
1300	29.84	84.34	94.06	1.02
1330	27.47	51.43	57.86	1.02
1400	26.15	41.92	46.67	1.02
1430	17.46	36.96	40.57	1.02
1500	16.92	34.78	37.96	1.02
1530	21.82	31.19	34.17	1.02
1600	22.24	33.38	36.83	1.02
1630	23.05	43.30	48.13	1.02
1700	26.63	53.37	58.52	1.02
1730	25.93	48.61	52.57	1.02
1800	17.39	32.14	34.21	1.02
1830	16.49	21.34	21.81	1.02
1900	16.39	19.72	19.70	1.02
1930	20.43	18.89	18.74	1.02
2000	20.43	18.41	18.22	1.02
2030	9.84	14.00	13.80	1.02
2100	9.84	13.51	13.31	1.02
2130	15.90	23.81	23.62	1.02
2200	24.30	26.82	26.63	1.02
2230	24.30	27.37	27.18	1.02
2300	16.36	27.37	27.17	1.02
2330	16.38	18.07	17.87	1.02
2400	14.94	13.99	13.79	1.02

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left. [illegible]

Apple sees return to revenue growth

By Louise Kehoe in San Francisco

Apple Computer will report a profit for its third quarter and a return to revenue growth later in the year, Steve Jobs, interim chief executive, said yesterday.

Although Mr Jobs gave no details, he said Wall Street would be pleased with the US personal computer group's forthcoming quarterly results which would mark its third consecutive profitable quarter, after heavy losses.

Speaking during a presentation at the Macworld trade show in New York, Mr Jobs outlined plans to return the company to revenue growth, predicting that Apple's new line of "iMac" home computers would boost sales.

"We will have lots of iMacs on dealer shelves for the US launch on August 15," he said. The new machines, priced at $1,299, would provide "a tremendous amount of growth".

Apple's sales have declined sharply over the past two years, but Mr Jobs predicted a return to revenue growth within the next six months and that iMac would boost Apple's market share beyond the 4 per cent of worldwide PC sales it achieved in the first quarter.

Analysts said the iMac, with its translucent conical case, would attract broad consumer attention. The monitor and circuitry are contained inside a see-through case. The keyboard keys are also translucent, and the mouse lights up when the machine is in use.

Apple said more than 175 new or updated software titles for Macintosh had been announced by third-party software developers since it unveiled its iMac computers in May. "The iMac is reigniting software developers' excitement to be on Macintosh," said Mr Jobs.

Apple shares were up $1⅜, or 4½ per cent, at $31⅞ in early trading.

TELECOMMUNICATIONS CHARGE TO REFLECT LCI BUY HIGHLIGHTS ACCOUNTING TREATMENT OF R&D

Qwest warns of $900m write-off

By Richard Waters in New York

Qwest, the start-up company that is building a new national telecommunications network in the US, yesterday said it would take a charge against profits of $850m-$900m to reflect its acquisition of LCI International, formerly the country's fourth biggest long-distance carrier.

Most of the write-off is related to so-called "in-process research and development", Qwest said.

The move reflects an accounting treatment that has drawn considerable attention on Wall Street during the current wave of mergers and acquisitions, since it in effect reduces the charges that would otherwise have to be taken against earnings in future years.

The Denver-based company also put an optimistic outlook on the potential savings from combining its fibre-optic network with the older network of LCI. Combining the two systems would slash $600m from the two companies' capital spending plans, far more than the $288m that had been projected, Qwest said.

Qwest said it had written off all the R&D it was acquiring with its purchase of LCI. It put this amount "in the range of $800m-$850m". Other merger-related charges would amount to $50m, it added.

US accounting rules require companies to apportion a value to the R&D they acquire in an acquisition, then write this off at the time the deal is completed.

The rule has been in place for 25 years, and reflects the fact that US accounting regulations require companies to write off all R&D when it is incurred rather than capitalising it, said Mr Tim Lucas, of the Financial Accounting Standards Board.

By apportioning a large amount of a purchase price to in-purchase R&D, an acquiring company reduces the amount that would otherwise have to be recorded as "goodwill" – which would have to be written off against future earnings.

The treatment of R&D is one of several controversial issues arising from takeover and merger accounting that is up for review by the FASB. Most attention has focused on so-called "pooling", a form of merger accounting in which goodwill does not arise at all.

"The whole subject of business combination accounting has been identified as a problem area," said Mr Lucas. The FASB plans to produce an exposure draft of possible new rules on accounting for mergers and acquisitions this year, though Mr Lucas said it was likely to be "several more years" before any rule changes came into effect.

Proof of the power of retail

Morgan Stanley Dean Witter is exploring opportunities for direct selling of financial services products, writes **Tracy Corrigan**

Less than 18 months ago, when Morgan Stanley merged with Dean Witter, the reaction on Wall Street was one of shock. Now the notion of a top investment bank wedding a large retail brokerage seems almost mundane.

More creative couplings such as Citicorp and Travelers have grabbed the attention, and the fuss over how the snooty investment bankers of Morgan Stanley would mix with Dean Witter's middle-market brokers seems rather overdone.

MSDW has delivered the promised boost in revenues, and last year added a further 1,000 account executives (brokers), bringing the total to 10,000, and expects to reach 11,000 by the end of this year. Its share price has risen 126 per cent since the merger was approved by shareholders in May 1997.

John Mack, the merged firm's president and chief operating officer, says the merger has proved "the power of retail" and that Morgan Stanley "bankers have embraced retail".

It is just as well, because the signs are that the mix of businesses at MSDW is likely to become more heavily skewed towards retail financial services.

The firm is looking at opportunities in Japan, for example, where Travelers' Salomon Smith Barney and Merrill Lynch both recently acquired retail distribution.

"The Japanese market is in a period of great instability," says Philip Purcell, MSDW chairman, adding that he sees opportunities for building asset management and expanding retail distribution. "Japan is the best opportunity [in Asia]," he notes.

While some analysts have speculated that the firm may be considering the sale of its Discover credit card business, which is currently the laggard of its portfolio due to loan losses, Mr Purcell is adamant that the business is worth hanging on to.

"On average, I would be very surprised if returns on the credit card business were not as good [as in other areas]," he said. "Hopefully [the credit card business] is at the bottom of its cycle."

Moreover, he sees the firm broadly as "a financial services company with an institutional and retail component, and in retail you want to sell multiple products."

It recently set up a new unit, Morgan Stanley Dean Witter Direct Business, to explore opportunities for the direct selling of retail products. Tom Schneider, formerly finance director of Dean Witter, is in charge of the unit, which will look at opportunities in this area, both through the internet and other forms of direct distribution. Discover's customer base of 30m households is a vital asset in this context.

At the moment, the only product available through Discover Direct, the firm's on-line retail brokerage (formerly Lombard) is securities, but it is looking at the possibility of offering other products, in insurance and banking. To this end, it is lobbying hard to have 11-year-old legislation preventing cross-marketing to Discover cardholders changed.

"John and I recognise that the internet is a new form of distribution for financial services products. Our shareholders should expect us to invest and try to be the best in that type of distribution, as in others," said Mr Purcell. But he added wryly: "This is an exciting business, and no one's making any money at it."

However, he says the firm has not invested "material amounts of money". Although he says it is not yet clear what form the drive in direct business will take, he says quietly: "If we didn't do more in 1999, we'd be disappointed."

The two men behind the merger, which was seen as a catalyst for rapid consolidation in the financial services industry, say there is more to come.

"If the market stays high, the consolidation will continue and accelerate. The last step, and that hasn't happened [except in a limited way] is cross-border consolidation," says Mr Purcell.

Now the job of integrating Morgan Stanley and Dean Witter is behind them, it may be time for Mr Purcell and Mr Mack to make their next move. Travelers' Sandy Weill has pulled off three big deals in less than a year.

Having ruled out another mega-merger, MSDW is likely to look for geographical or product add-ons, particularly in retail financial services. But the recent internal moves suggest that they are also preparing to push into new markets through organic growth.

Philip Purcell: 'Japan is the best opportunity in Asia' Reuters

Bay Networks in German buy

By Roger Taylor in San Francisco

Bay Networks, the data networking company bought by Northern Telecom for about $9bn last month, yesterday outlined its plans to break into integrated telephone and data services starting with the acquisition of NetServe of Germany.

NetServe's technology allows internet telephone services to be run through local television cable networks, as well as traditional internet data services.

Local cable networks are seen by some as a means for long distance telephone companies to get direct access to people's homes, allowing them to compete with local telephone operators. This theory persuaded AT&T, the largest long-distance operator in the US, to make an agreed $48bn bid for TCI, the cable company, last month.

Bay said it had been in discussions with TCI who were considering buying its new equipment.

A deal would be a big confidence booster for Bay. Standards of reliability are far higher in the telecoms market where the level of failure rates associated with traditional business data networking would not be tolerated. Some analysts have questioned whether Bay has the credibility to sell products to telephone companies, casting doubt on the wisdom of NorTel's acquisition.

"NetServe's products are the type of technology that TCI will need as we go forward to put voice into the cable local loop and make broadband cable technology the most cost-effective infrastructure for voice, video and data communications to the home," said Susan Marshall, vice president of products and technology at TCI.

Bay did not reveal how much it paid for NetServe.

NEWS DIGEST

PHARMACEUTICALS

J&J to add alcohol warning on painkiller labelling

Johnson & Johnson's McNeil Consumer Products subsidiary, the world's leading maker of over-the-counter pain relievers, yesterday agreed to revise the labelling of its Tylenol (acetaminophen) brand to warn about possible liver damage if the recommended dose is exceeded by "chronic heavy alcohol users". Previous labelling did not specifically warn about organ damage. Its Motrin (ibuprofen) brand will warn about the risk of stomach bleeding for those who drink three or more alcoholic beverages a day.

The changes are in line with recent proposals from the Food & Drug Administration that all pain killers should warn of the dangers of use in conjunction with alcoholic beverages. The company said the warnings are aimed at heavy users of alcohol. The new packaging will start appearing in shops in late July.

J&J has faced criticism for its failure to include more specific warnings on the dangers of taking Tylenol, the leading US pain killer, in conjunction with alcohol or in excess of the stated dose. According to an article in Forbes magazine in January, which highlighted a number of deaths and near-deaths as a result of acetaminophen poisoning, at least 100 related lawsuits have been filed against the company, half in the past three years, and in several cases the company has made out-of-court settlements requiring the plaintiffs not to disclose the terms.

Tylenol, introduced by McNeil in 1955, is estimated to have sales of about $1.3bn a year and has held on to its market share with the help of heavy advertising, in spite of being off-patent.

Vivian Wohl, senior research analyst at Merrill Lynch, said the change would not have a big impact on sales of the product. "This has been talked about for a long time," she said. "Tylenol is the mildest of all pain relievers. It is already pretty well understood that Tylenol can damage the liver."
Tracy Corrigan, New York

BUSINESS SOFTWARE

SSA takes $120m charge

System Software Associates, the loss-making Chicago-based business software group, will take a one-time restructuring charge of $120m in its fiscal third quarter ending July 31. The charge will cover job cuts totalling 12 per cent of SSA's 2,500 workforce, the write-down of a portion of capitalised software, a 25 per cent reduction of office space, and a recognition of warranty commitments.

The restructuring follows review of its operations which began in April under the group's new chief executive. SSA said the actions were consistent with its previously stated plans to reposition, restructure and revitalise the company whose main product, the BPCS software suite, competes in the market for enterprise resource planning software.

SSA, which competes against other ERP software developers including Germany's SAP, the market leader, had revenues of $430m in the 1997 fiscal year. **Paul Taylor**

MANAGED FUNDS

Index trackers take the lead

Barclays Global Investors, one of the world's largest index trackers, published a report which showed that such funds have outperformed their actively managed counterparts in the US over the past 10 years. The report by Pricewaterhouse-Coopers, the accountancy firm, commissioned by BGI, found that index trackers, which followed the S&P 500 index in the US have outperformed the average active managers by between 0.5 per cent and 1.7 per cent over the past 10 years.

Such findings follows similar research by performance measurement companies such as the WM company in the UK. The 10-year figure has been helped by bull markets in US and UK equities over the past three years. The performance gap between index and active managers widened further when management fees were taken into account, according to the BGI report. BGI commissioned the study to celebrate the first 25 years of indexation, which they trace back to a fund started by Wells Fargo in 1973. **Jane Martinson**

COMPUTERS

Microsoft, Matsushita in tie-up

Microsoft yesterday announced an alliance with Matsushita of Japan, the electronics company behind the Panasonic and Technics brandnames, to develop personal computers which can also receive and play digital television signals.

Under the agreement, Matsushita is planning to build PCs with digital TV capabilities, using Windows CE operating systems. The deal also covers the development of advanced set-top boxes for digital cable, and the deployment of WebTV terminals in Japan. WebTV, which enables internet connections through television sets, is a Microsoft subsidiary.

The tie-up is the latest in a series of multi-media related alliances forged by Microsoft with leading Japanese electronics groups. Earlier this year, it announced links with Sony and Hitachi. Sony is planning to launch Windows CE based interactive television set-top boxes next year.

Microsoft said it wanted to accelerate the delivery of "intelligent, integrated and easy-to-use" consumer products which could combine audio, TV and internet related functions.
Roger Taylor, San Francisco

Dixons confounds sales fall expectations

By Peggy Hollinger

Dixons, the UK's largest electricals retailer, yesterday confounded the market's worst expectations after its profits warning in January by reporting a 10 per cent drop in current trading.

The news came as a relief to investors in the retail sector, who have been stung by a series of profit warnings from other consumer durable retailers in recent months. Fears of a slowdown in consumer spending had led investors to expect Dixons to show sales down as much as 15 per cent on a comparable basis for the first nine weeks of the financial year.

Dixons also announced a 14 per cent rise in annual pre-tax profits to £217.6m ($357m). Its shares jumped 14 per cent to 547p, recovering most of the fall incurred since mid-June.

Analysts said the 10 per cent like-for-like decline was respectable given that sales had been artificially boosted in the same period last year by the windfall bonus-driven retail boom.

John Clare, Dixons chief executive, said he "always knew it would be impossible to match" last year's 17 per cent comparable sales growth in the first nine weeks. "We benefited very substantially from the windfall bonuses."

He sought to calm fears about future trading and the prospects of a return to recession in the UK. He said: "The market is very competitive and consumers' expectations are growing, but that is not the same thing as recession."

The group was confident it would continue to make progress this year, said Mr Clare, opening 100 new stores.

Sales for the year were up by 16 per cent to a record £2.77bn.

Mr Clare said the company was encouraged by the fact that unit sales of personal computers were rising.

The group planned to open a further 18 PC World stores for a total of 66.

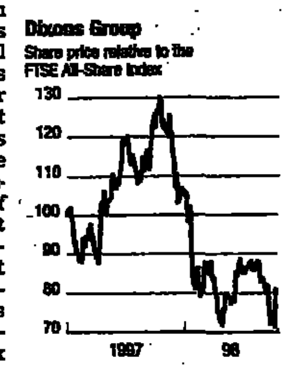
The outlook for the other businesses was equally encouraging, he said, with digital technology promising to reinvigorate sales at the core Dixons chain. The first set top boxes for digital television would be on sale in August, he said.

Currys, the out of town format, would benefit from further moves to larger sites, while The Link, the mobile phone chain, would open a further 50-60 outlets for a total of about 187.

The final dividend of 9.8p lifts the total 21 per cent to 12.7p. Earnings per share rose 18 per cent to 34.8p.

COMMENT

Dixons



Source: Datastream/ICV

Starting the year off with negative like-for-like sales growth is no recipe for retail riches. So for Dixons shares to leap 14 per cent on a 10 per cent drop in sales in the first nine weeks of this year looks a little exuberant. True, there are significant mitigating factors. Most important is relief that comparisons with last year's windfall-boosted figures were not a whole lot worse. Like other semi-durable goods retailers, Dixons has significantly underperformed the market as six interest rate rises have squeezed discretionary spending on big ticket items. And the outlook is far from promising. On top of slower economic growth, price deflation in personal computers looks set to continue, even if unit sales growth and ancillary software revenues provide some offset. And the white goods market will fall back to trend growth rates of 5-8 per cent, following a replacement spree by late 1980s homebuyers.

In this environment, Dixons will need must-have products to sell, if its expanding fixed cost base is not to dilute earnings. Digital television is the great brown hope: if consumer confusion can be avoided, it should lift goods sales and accelerate replacement cycles. But in the near term, the effect on profits does not look material. While Dixons' shares may have looked cheap on a 40 per cent discount to the market, that was for good reason. Buying back into them now may be premature.

Scottish & Newcastle

While UK consumers may be wary of big ticket items, Scottish & Newcastle is boasting about its own investment binge. Over the last three years it has ploughed £336m into its pub operations. And the group shows no sign of helping staunch the flood of money hitting the pub sector: £200m earmarked for this year is a 50 per cent up on 1997-1998.

While sustaining 20 per cent-plus returns on investment will be hard, a sharp fall in returns seems improbable. Unlike many of the regional brewers, S&N is not focused on competing for expensive new high street sites. Through its acquisition of Chef & Brewer and 310 tenanted pubs from Inntrepreneur, it already has an estate of well-sited pubs suitable for conversion into its branded chains. Pub bears should leave S&N alone.

S&N growth bucks sector trend

By John Willman

Shares in Scottish & Newcastle, the UK's largest brewer, rose sharply yesterday following news of a 13 per cent increase in pre-tax profit and buoyant trading over recent weeks.

Brewing and pub company shares have been hit by warnings from several groups of a downturn caused by the poor weather and England and Scotland's early exits from the football world cup. But Brian Stewart, chief executive, said S&N had seen no signs of a decline.

"The underlying trend is consistent with steady growth," he said. "We get weeks when it's better or worse, but we see no deterioration in the picture."

The group reported pre-tax profits for the 53 weeks to May 3 up from £372m to £422m ($696m), in line with analysts' expectations. The shares rose 36p to 818p.

S&N said it would be asking shareholders to approve rule changes allowing the group to buy back its shares. But Mr Stewart said there were no plans for a buy-back, and the changes were designed to bring it into line with other FTSE 100 companies.

"This is just good housekeeping," he said. "We have always managed to find good returns for shareholders' money and hope to continue to do so."

The strongest performance came in the retail division, which runs the group's pub estate. Operating profits rose 16.7 per cent to £200.3m, with like-for-like sales per outlet up 11 per cent.

Sales in the Scottish Courage brewing division were flat, but profit rose 23 per cent to £218.3m.

Profit in the Center Parcs leisure division fell 14.3 per cent to £61.9m, hit by weak demand in France and Germany and upgrading costs. S&N said it had seen a pick-up in bookings.

Group turnover was flat at £3.35bn. There were exceptional losses of £700,000 (£2.1m).

Gearing rose from 31 per cent to 39 per cent.

Investors attack Sears on vote

By Jane Martinson

Institutional investors have criticised Sears, the retail group, for failing to allow a separate vote on proposed executive pay schemes with its demerger plans for Selfridges, the Oxford Street store.

Investors believe that next week's vote, which bundles the proposed demerger with long-term incentive schemes for directors of the new company, is a contravention of the Hampel committee on corporate governance. The report, published earlier this year, said the practice of bundling "should cease".

Clerical Medical, one of the largest individual shareholders of Sears with a 4 per cent stake, yesterday wrote to Sir Bob Reid, the chairman, to express its "extreme concern" about the lack of a separate vote.

William Claxton-Smith, director, UK equities , said: "We are very unhappy about having one resolution to approve the whole thing and not being able to vote on the incentive plans.

"We are taking this opportunity to make it clear that this is something we don't like and don't want to see from other companies."

Other recent demergers, such as that of Arcadia from Debenhams, another retail group, also bundled pay with the decision to float.

However, the size and nature of the Selfridges packages for executive board members appeared to have attracted investor attention.

Sears denied there were any up front payments to Selfridges' directors other than a bonus on demerger which is normal practice in such procedures.

Institutional investors have been very supportive of the demerger proposals, which makes it unlikely that next week's vote will fail.

No windfalls, no fun, no sun; nobody likes us, and we do care

As a string of retailers give profits warnings, **Peggy Hollinger** assesses whether the sector is heading for a recession

It is no fun being a retailer these days. Investors don't seem to like you, nor do consumers, and economists are distinctly funereal about your prospects for the rest of the year.

Since March, the market's expectations for your earnings growth this year have fallen from well above 10 per cent to just 2 per cent. And there is a good chance even that figure will turn out to be too high.

The high street seems to have come a cropper in 1998 and the string of profit warnings from even the most respected retailers seems merely to confirm the market's worst fears.

"Just look at the number of retailers who will report a fall in first half profits," says one leading retail analyst. "Marks and Spencer, Great Universal Stores, Next, MFI – and there will be more."

Yet retailers began warning as early as last year that 1998 would be much tougher and the smart analysts were telling investors that retail was no place to be.

As a result, the sector has underperformed the market by almost 17 per cent in the past 10 months.

The most obvious reason for the downturn is simply the absence of windfall bonus payments this year. The great building society giveaway put some £30bn ($50bn) into consumers' pockets which, with hindsight, led to a retail boomlet, particularly for big ticket items such as furniture and personal computers.

But the question now preoccupying the market is whether the downturn has gone beyond the absence of windfalls.

Some economists think it has, and that the consequences for retailers could be disastrous. "We are entering a period where recession risks are growing and that will inevitably take its toll on retailers," says Darren Winder, economist with Warburg Dillon Read.

The series of interest rate rises, higher indirect taxation and the erosion of tax allowances are all combining to squeeze what he describes as net household consumption income. "It is a squeeze on household cash flow that is affecting retailers right now," he says. "Retailers have no power to increase prices and have to cut prices to get sales."

Moreover, there is not a great deal of scope to improve efficiency and thus buoy profits in a tougher selling environment. "People have become too productive," says Mr Winder. And, he argues, "they are not being paid what they produce" which further restricts their spending power.

There are other worrying indicators that the retail economy is heading for a slowdown. Traditionally retailers have considered their competition to be the next store on the high street. But, increasingly they have had to fight leisure interests such as cinemas and restaurants for their customers' disposable income.

These sectors have enjoyed strong growth in recent years, but statistics show that even here spending is beginning to weaken.

Mealtrak, a survey of consumer consumption outside the home conducted by Taylor Nelson AGB, the market research group, found that in the last two quarters fewer people were dining out. From November 1997 to January 1998 the number of meals served outside the home fell by 6 per cent on the previous quarter; in the following three months it fell by a further 1 per cent.

Even more worrying is evidence from Taylor Nelson Sofres' Superpanel survey which shows that the supposedly recession-proof grocery market has also begun to slow down. In the months from March to June, growth in grocery sales fell from 5 per cent to 3 per cent, the lowest level of increase for more than a year.

With such signals, why are retailers not more worried? In spite of profit warnings and tougher market conditions, most do not appear to believe the economy is heading for recession. "If you look at the major product sectors, for as many that appear to be losing there are those who are winning," says John Clare, chief executive of Dixons. "That is the sign of a very competitive market – not a recession."

The British Retail Consortium is adamant Britain is not heading for recession – at least not yet. "The rate of growth in the retail market is slowing," says Ann Grain of the BRC. "But there is still a stable non-inflationary growth in spending."

Pamela Webber, the BRC's economist, says the series of exceptional factors which affected spending both last year and this make the picture very difficult to read.

Growth is slowing during a summer which has seen not only wet weather – so hot weather fashion is not selling – but the World Cup, affecting family shopping days out.

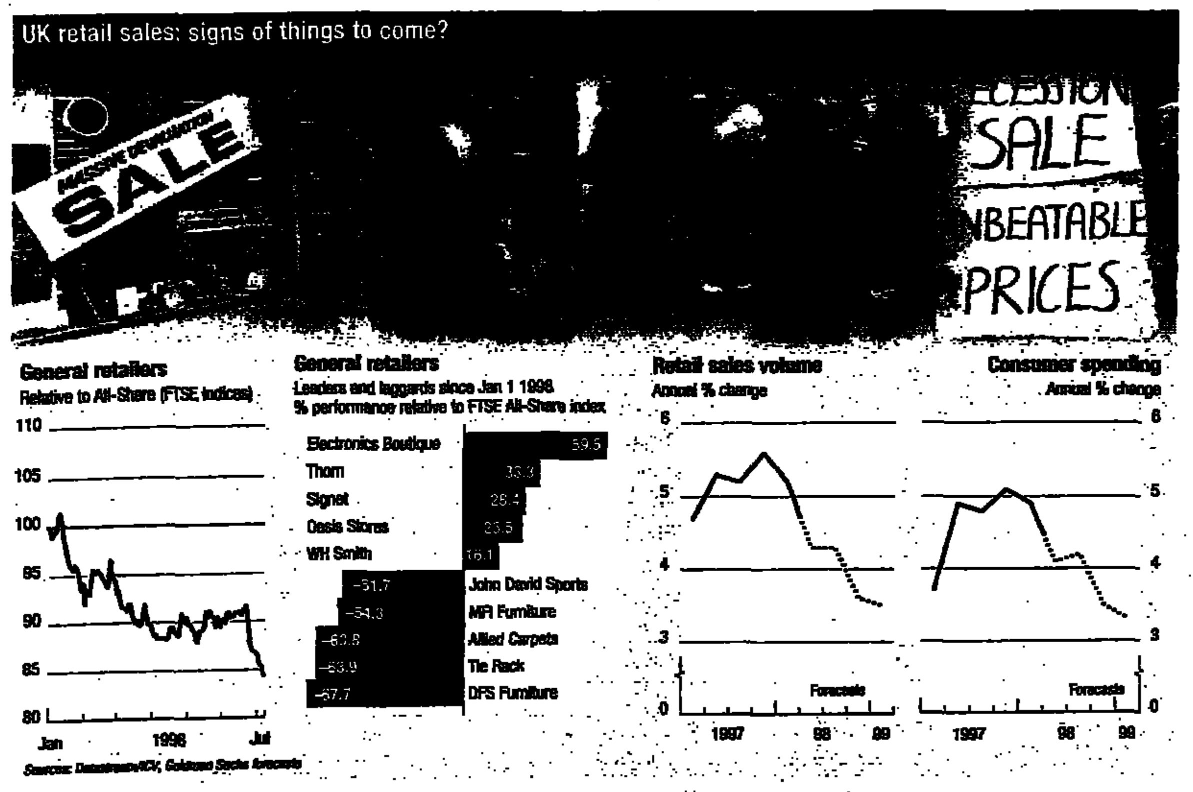
Even in the north of England, where some of retailers such as DFS have blamed uncertainty in the manufacturing sector for their woes, trading seems to be better than the pessimists have accounted for.

The MetroCentre at Gateshead says the number of visitors increased by 3 per cent in the first six months.

"We would not have expected to see footfall increase by that much in our 12th year," says Ron Woodman, the centre's marketing director.

Then again, that might not be good news for the rest of the country. The region appears to have a propensity to spend, particularly when times get tough. "We call it the 'sod it' factor," says Mr Woodman. "It's when a family says 'sod it', it does not matter how hard things are, we will have a good time. It is the philosophy in this part of the country."

UK retail sales: signs of things to come?



Sources: Datastream/ICV, Goldman Sachs forecasts

Mirror crosses the Irish divide

By Cathy Newman and John Murray-Brown

Mirror Group has added the Derry Journal, one of Northern Ireland's leading nationalist newspapers, to its stable of provincial newspapers which also includes the unionist News Letter in Belfast.

David Montgomery, Mirror Group chief executive – an Ulsterman who describes himself as a "black-hearted Ulster Prod" – said yesterday that the paper's editorial stance would not alter.

Mirror paid £18.25m ($30m) for the Derry Journal group, controlled by the McCarroll family. The group also owns the Donegal Democrat and the Donegal People's Press in the Irish Republic and sells a total of 75,941 copies a week. Its annual turnover is £5m-£6m.

The deal forms part of Mirror's strategy of strengthening its position in regional newspapers following the £297m acquisition of Midland Independent Newspapers in October and comes two years after it bought Century Newspapers, publisher of the News Letter.

Under Mirror ownership the News Letter has adopted a more conciliatory position.

Mr Montgomery said: "There hasn't been the slightest disquiet about Mirror Group's acquisition of the Derry Journal, which is indicative of changing attitudes."

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Anite	Yr to Apr 30	149.5	(193.4)	29.3♥	(50.4L♠)	8.9	(21.2L)	0.25	Nov 3	nil	0.25	nil
Bogod	Yr to Mar 31	8.49	(8.25)	0.52	(0.41)	8.53	(5.19)	0.4	Oct 2	0.33	0.55	0.45
Bogod A	Yr to Mar 31	"	(")	"	(")	"	(")	0.8	Oct 2	0.66	1.1	0.9
BWD Securities	6 mths to May 31	11.04	(8.51)	2.87	(1.5)	10.6	(5)	3.5	Oct 1	2.2	-	7.5
Daejan	Yr to Mar 31	30.1□	(28.1□)	27.1	(24.5)	119.1	(102.6)	23	Oct 1	6	42	38
Dixons	Yr to May 2	2,774	(2,443)	218.7	(200.2♥)	37.7†	(34.3)	9.8	Oct 5	8.1	12.7	10.5
Dudley Jenkins	Yr to Apr 30	25.1	(21.5)	3.63	(2.65)	17.73	(12.22)	4.5	Oct 2	3.25	6.5	4.75
Era	Yr to Feb 28 ☆	76.1	(91.7)	11.2L♠	(13.3L♠)	9.03L	(10.27L)	nil	-	nil	nil	nil
FI	Yr to Apr 30	161.6	(98.8)	10.7	(6.58)	23.5†	(14.8)	5.2	Oct 1	3.4	7.8	5.1
Fletcher King	Yr to Apr 30	5.71	(4.56)	0.404	(0.273)	3.4	(2.4)	1.85	Oct 1	1.25	2.6	1.75
Hansom Φ	Yr to Mar 31	6.61	(9.65)	0.182	(1.06L♠)	0.48	(5.51L)	-	-	-	-	-
Helton ‡	Yr to Apr 30	165.7	(140.4)	11	(8.61)	16.02	(12.33)	2.8	Sept 21	2.25	4.9	3.9
Penna	Yr to Mar 31	22.3	(16.7)	3.91	(0.648♠)	23.97†	(0.8L)	1.3	Aug 12	1	2.5	2
Scottish & Newcastle	53 wks to May 3	3,352	(3,349)	422	(372)	52.8	(46.5)	15.59	Sept 1	14.17	23.52	21.38

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. □Net rental income. ☆Comparatives for 14 months to Feb 28 1997. ΦAim stock. ‡Irish currency.

TECHNOLOGY SOFTWARE PATENTS

Intellectual property in need of protection

Richard Poynder on moves to alter European patenting laws for software applications

Windows of opportunity: Microsoft has taken out patents since the US Supreme Court ruled software could be protected Associated Press

Throughout its early days, the software industry relied on copyright laws to protect computer programs. But with revenues from software piracy reaching an estimated $13bn in 1996, and escalating copyright disputes between software developers, companies are turning to the patent system for protection.

Initially, patent authorities resisted software patent applications. But since 1981, following a landmark Supreme Court decision, the US Patent Office has been compelled to accept them, and recent years have seen a growing tide of software patents granted in the US. Microsoft alone owns about 500.

In Europe, the Munich Convention, in operation since the 1970s, proscribes the patenting of software, but pressure for change is growing. When it issued its Green Paper on the future of the European patent system last June, the European Commission invited views on software patenting.

At a recent London conference on the issue, John Mogg, the Commission's director-general of internal market and financial services, said: "The Commission would be prepared to support a revision of the Munich Convention ... to make it clear that computer programs are no longer excluded from patent protection."

What is driving this development? At the heart of the debate lies a simple question: how does an industry provide innovators with sufficient protection of their intellectual property to encourage technological development, without creating monopolies?

Advocates for change complain that copyright protects only the code of a software program – and not the idea behind it. In contrast, says Axel Casalonga, European patent attorney at Bureau D A Casalonga-Josse in Paris, a patent would protect "the main inventive idea within the software". In other words, although a new software feature may constitute an "inventive leap" that in other areas of technology would allow the creator to obtain the 20-year monopoly conferred by a patent – copyright prevents competitors only from duplicating the specific code used to create the feature, not from writing another program to achieve the same effect.

A recent study by IDC, the IT market researchers, estimated the global software industry was worth around about $95bn in 1996

This is an issue of growing economic importance. A recent study by IDC, the IT market researchers, estimated the global software industry was worth about $95bn in 1996, and recent projections suggest that it will grow at 13 per cent per year through the turn of the century, with a projected worldwide market of $180bn by 2000.

To meet this growing demand, businesses are investing large sums of money. Every year, Siemens spends some DM8bn ($4.4bn), or 60 per cent of its R & D budget, on software development. Understandably, companies are keen to protect their intellectual property. "Software patents," concludes Arno Koerber, director of intellectual property at Siemens, "are vital for European industry".

But not everyone agrees. Patent examiners, argue critics, lack the expertise to adjudicate on software applications. If software becomes patentable in Europe, insists Ron McQuaker, former president of the British Computer Society, patent offices would hand over "monopoly rights which are neither appropriate nor required [and] could give patentees with deep pockets monopolies over 'inventions' which are far from original or inventive".

Several high-profile cases in the US support this view. In 1993, for instance, Compton's New Media, a US-based multimedia company, said it had been awarded a US patent covering the search technology for running computer-based multimedia presentations. As a result, it added, any company selling multimedia products in the US would have to pay 1-3 per cent royalty on every item it sold.

A storm of protest ensued – concluding with the announcement from the US Patent Office a year later that after "exhaustive re-examination" of the claim, it had decided to reverse its earlier decision. Patent offices respond by saying such matters are merely a training issue, and that the situation is improving in the US. "Patents are after all concerned with inventions," says Derek Haseleden, director of the UK Patent Office. "Which means that, almost by definition, examiners must be prepared to deal with different and new areas of technology."

Critics counter that training is not enough. Unlike other areas of technology, where vast archives of related patent documents and journal articles exist, software techniques have traditionally been held as trade secrets, or only published in handbooks and manuals not readily available to patent examiners. Without access to this "prior art", they argue, examiners cannot establish whether or not a software claim is novel and non-obvious.

This too is a short-term issue, suggests Richard Thorne, commercial director of Derwent Information, a specialist patent information company. "The same argument could be used about any other new area of technology," he says. "Our online patent database, Derwent's World Patent Index, is widely used by all the major patent offices around the world for prior art searching. New patents [including those for software] are added to the database the same week they are granted."

Mr Casalonga adds that, in any case, "the European patent system provides for an opposition procedure. This can be used by third parties to avoid the grant of patents covering inventions already known."

Brussels has yet to reach a decision. There is, however, a powerful head of steam supporting change. The Agreement on Trade-Related Aspects of Intellectual Property Rights (Trips), signed as part of the Uruguay round of the General Agreement on Tariffs and Trade is interpreted as requiring national patent offices to allow software patenting.

John Frank, Microsoft's European director of law & corporate affairs, has no doubt Europe will fall in line: "Whether there should be software patents or not is no longer the issue. The important question now is how do we make sure that the software patent system works well."

TECHNOLOGY WORTH WATCHING

Sparking interest in shrinking circuits

The possibility of a new class of electronic devices based on single atoms or molecules has drawn a step closer, following experiments reported in today's Nature, the international science journal.

"Fabrication of structures at the atomic scale is now possible using state-of-the-art techniques for manipulating individual atoms and it may become possible to design electrical circuits atom-by-atom," say the group of scientists.

The researchers, who work at the Physikalisches Institut at the Universität Karlsruhe in Germany and elsewhere, showed that single-atom devices can be made by lithography. They then showed how the electrical characteristics of the circuit depend on the quantum properties of the atoms involved. The significance of shrinking circuits down to the level of a single atom or molecule is that it may open the way to ultrasensitive devices based on materials other than semiconductors or superconductors.

Physikalisches Institut: Germany, tel 7216083511; fax 7216086103

Striking bat improvement

It started with electronic skis. Now the science of vibration damping has been extended to snowboards, mountain bikes, and baseball bats.

Active Control Experts, a Massachussetts-based company, has developed piezoelectric controls to damp out unwanted vibrations. The device uses a piezoelectric material, which generates a voltage when stretched or compressed. That converts mechanical vibration into electrical energy, which is then applied across a circuit that dissipates the energy as heat. The idea is that it enlarges the "sweet spot" of the bat, allowing the player to get better results from off-centre hits.

The electric bat, which was developed in conjunction with Worth, a US baseball company, is expected to cost slightly less than $300 (£187).

ACX: US, tel 6175770700; Worth: http://www.worthinc.com

Cannabis assists stroke treatment

One of the chemicals in cannabis may show promise as a treatment for strokes, Parkinson's disease and Alzheimer's, according to US researchers.

The National Institutes of Mental Health in Bethesda have found that cannabinoids, components of cannabis, are powerful antioxidants which were found to prevent the death of brain cells in animal studies. The process blocks the destructive effects of excessive amounts of glutamate, a chemical messenger in the brain released during a stroke.

The researchers particularly focused on cannabidiol, a cannabinoid that does not have mind-altering effects.

National Institutes of Mental Health: US, tel 3014968755; fax 3014021748.

Cleaning up with waste sawdust

Australian researchers are using waste sawdust and offcuts from the sawmilling industry to make activated carbon, which is used in scrubbing gases, purifying water, and gold mining.

The process developed by CSIRO, the Australian research organisation, involves a "fluidised sand bed" in which sawdust particles are heated to 500°C. The recovered carbon is processed further and activatedto make an efficient filter or purifying agent. CSIRO has licensed the technology to Victoria-based Enecon.

Enecon: Australia: tel 398886711; enecon@ozemail.co.au

Vanessa Houlder

GROWING BUSINESS FRENCH FRIES VENDING MACHINES

Wanting to be a big fry

William Hall on an entrepreneur's determined quest to perfect a commercially viable french fries vending machine

Patrick Bigger, a 33-year-old Swiss banker, is a small fry who wants to become a "Big Fry", judging by the personalised number plate on his Range Rover. Mr Bigger's ambition is to do what has never been done before – produce a commercially viable french fries vending machine.

Mr Bigger is not the first financier to fall in love with french fries. The trouble is that previous attempts to make french fries vending machines have proved more successful at swallowing shareholders' money than producing fries. The best-known example was Harvard International Technologies' Spud Stop whose shares soared on the Vancouver Stock Exchange after its president pronounced that his machine was "another Xerox in the making".

John Turner, a former prime minister of Canada, and Edgar Kaiser, a Vancouver millionaire, had liked the idea and backed the project. But Spud Stop did little more than produce black smoke. Its owners filed for bankruptcy in June 1994 after losing more than $20m. It was one of a series of flops including Tub O'Spuds and The Fry Machine. The latter was floated on the Toronto Stock Exchange in 1988 and planned to sell up to 50,000 machines a year. But it did not live up to expectations and very soon the distributors were asking for their money back.

Nevertheless, the dream lives on. The US market for french fries is estimated to be worth $12bn a year and 4.4bn portions of french fries were sold in the UK in 1997 through fast-food outlets such as McDonald's. There are 130,000 snack vending machines in the UK, Germany, France and Switzerland – Mr Bigger's target markets. According to his research, the snack business is growing at about 10 per cent a year and there is a pent-up appetite for french fries vending machines in "high traffic" locations such as railway and bus stations.

Mr Bigger will launch his machines in the UK and hopes to have 10,000 Tege Fresh Fries machines installed across his four target markets by 2001.

Mr Bigger is not the only entrepreneur in the race to perfect a commercially viable french fries vending machine. In the US, Tasty Fries, whose shares are quoted on the over-the-counter market, is about to test its first 25 machines in the north east US and Brazil. Its fries, made from a top-quality Idaho russet potato and cooked in cholesterol-free oil, take about one and a half minutes to produce.

Edward Kelly, Tasty Fries' president, says his company has never been closer to generating revenues than it is now and after some fine-tuning his machines are "field ready". However, Tasty Fries' market capitalisation of less than $7m suggests that investors still have their doubts that Tasty Fries can pump out fries as rapidly as it is pumping out new shares to finance its start-up phase.

Tege, Mr Bigger's Swiss company, by contrast, has a more seasoned stock market following, and is at present capitalised at more than SFr300m ($200m), despite having consumed SFr22m of shareholders' money without selling a single machine.

It had originally planned the launch in the summer of 1995. In November 1996, two machines were still being tested with a view to full commercial production in 1997. At the time Schroders, the UK investment bank, forecast that Tege would be earning SFr52.8 a share by 1999, which at the current share price of SFr135 would put the shares on 2.5 times earnings.

However, Tege is expected to lose about SFr9m this year and commercial production is not expected to begin before the autumn. Schroders' latest 1999 earnings' estimate has been reduced to SFr1.5 a share and Finanz und Wirtschaft, a Swiss financial paper, is even more cautious with a forecast of SFr0.5 a share which gives a prospective multiple of 270 times next year's earnings.

Since March, four machines have been operating at various test sites around Leicester in the UK and during the next few months they will begin to appear in Switzerland at venues such as the Montreux jazz festival and the Locarno film festival. EPA, a Swiss department store group, has agreed to test the machines in six of its Swiss stores and the Swiss arm of Coca-Cola will site a number of Fresh Fries machines next to its vending machines.

The key to the process is the rehydration of the dehydrated potato powder, which is produced by Nestlé. It involves spraying potato powder with a fine film of water and the potato rehydrates in five seconds to form a dough. It is forced through a grid and 36 identical fries fall into a frying basket preheated to 187°C. From pushing the button to getting the fries takes 80 seconds, which is faster than its US competitor.

"It is not a vending machine but a food-processing plant," says Mr Bigger. He hired the UK's PA Consulting Group to sort out problems of rehydration and extrusion. Rudolf Morf, a retired Nestlé executive, joined the company two years ago to oversee technical development and Geoff White, a UK engineer responsible for developing the Kenco coffee machine at Kraft Jacobs Suchard, joined last October.

This month, Charles Gebhard, a close associate of Klaus Jacobs, former owner of Jacobs Suchard, joined the board. He knows the consumer food industry and his arrival was seen as a significant staging post in Mr Bigger's quest to turn Tege Fresh Fries into a well-known brand name.

The rapid international growth of McDonald's, the US fast-food chain, has laid down new standards in french fries. Mr Bigger freely admits his fries may not be the best in the world but they are as tasty as McDonald's, and unlike McDonald's, where individual portions can vary by up to 15 per cent in size, Tege Fresh Fries serves the same portion.

The big unknown is whether the machines can operate reliably before Tege runs out of money. Kevin Swales, who runs the Rowena Garden Centre in Leicester, UK where one of the machines is sited, says that they still break down "more often than we like". But Mr White says that the more they break down the better, in the development phase. It enables him to identify snags. He has worked on several development projects for multinational food companies and is convinced that he can make the machine "deliver the goods".

Can this machine deliver the goods for Tege?

EQUITIES

Bourses join Dax at records

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

The Frankfurt stock market, fresh from its historic link with London, surged to a new high yesterday, with the Dax passing 6,000 for the first time.

European investors could be forgiven for a touch of vertigo. The Dax only passed the 4,000 level for the first time last summer. Amsterdam, Paris, Stockholm and Zurich joined the party yesterday, celebrating closing peaks of their own.

The FTSE Eurotop 100 index was another record-breaker yesterday, gaining 13.8 to a new high of 2,998.66. The broader Eurotop 300 rose 6.68 to 1,295.48, while the FTSE Ebloc 100, which focuses on stocks in single-currency countries, moved up 5.98 to 1,090.0.

Investor disappointment at the lack of detail in the statement from the Japanese prime minister on tax reform failed to put a dampener on Europe's rise, especially as Asian markets were fairly solid and Wall Street opened strongly.

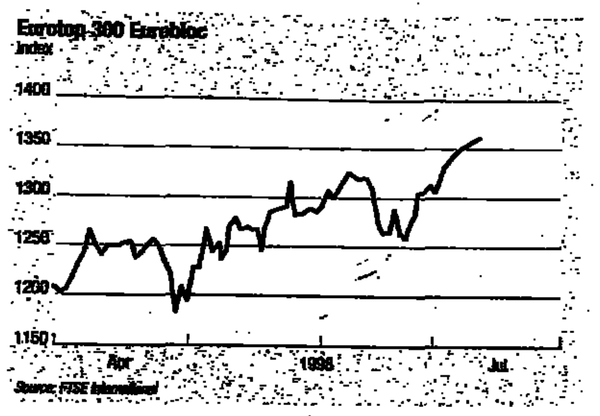
European equities continue to benefit from a strong economic background – low inflation and interest rates, combined with a pick-up in growth, the restructuring of European corporations and the potential for higher profits and a shift to equity ownership among retail and institutional investors. Investors in the US, UK and Asia seem to regard Europe as a prime area for international diversification.

The best-performing sector of the day was life insurance, which rose 3.2 per cent with the Dutch group Aegon in the vanguard, gaining Ecu 3 to Ecu 87.21. In the UK, Prudential rose Ecu 0.40 to Ecu 12.49 with the help of a Merrill Lynch recommendation for the sector.

Construction stocks gained 2.3 per cent, with Bouygues following up Tuesday's strong performance with a gain of Ecu 6.60 to Ecu 186.17, as its subsidiary Bouygues Offshore, reported a big contract.

ABN Amro's purchase of Banco Real prompted an Ecu 1 gain to Ecu 22.70 in the Dutch bank's stock, while the sector rose by 0.7 per cent.

The healthcare sector dropped 3 per cent, with Nycomed Amersham, often a volatile stock, down Ecu 0.20 to Ecu 6.61.



THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	15902
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7313
Mar	-	[illegible]	[illegible]	-	-	0	4720
Jun	-	[illegible]	[illegible]	-	-	0	1830

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	3022.0	+13.0	-	-	0	959
Dec	-	3057.0	+13.0	-	-	0	73

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

OTHER INDICES

	Jul 8	Jul 7	Jul 6	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2576.42
DJ Euro Stx 50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2685.52
MSCI Europe	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	510.76

Source: Datastream of FT Information. *Subject to revision next day. (n) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

July 8

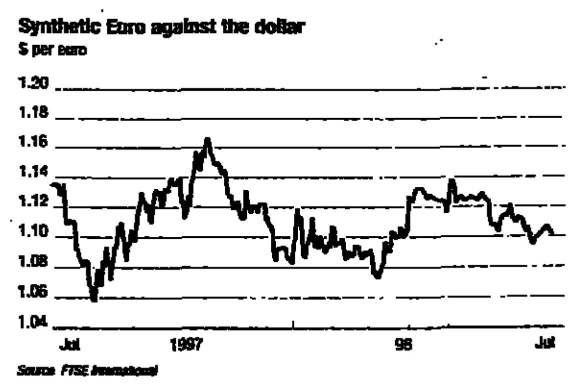
National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop300	1295.48	+0.52	+6.68	2.20	18.73	1325.98
FTSE Eurotop100	2998.66	+0.46	+13.80	2.22	24.67	1068.55
FTSE Ebloc100	1090.00	+0.55	+5.98	1.84	11.83	1102.66
FTSE Eurotop 300 Regions						
Eurobloc	1363.63	+0.53	+7.19	1.85	17.89	1388.40
UK	1179.57	+0.30	+3.55	2.83	21.62	1222.20
Europe Ex-Eurobloc	1239.60	+0.51	+6.24	2.57	18.59	1272.48
Europe Ex-UK	1361.92	+0.62	+8.43	1.90	17.06	1384.00
FTSE Eurotop Industry Sectors						
RESOURCES	1001.98	–0.78	–7.87	2.88	19.78	1036.29
Extractive Industries	822.35	+1.00	+8.13	3.21	0.00	822.35
Oil, Integrated	969.83	–0.85	–8.33	2.87	12.96	979.83
Oil, Exploration & Prod	960.53	–0.59	–5.68	2.57	0.00	960.53
GENERAL INDUSTRIES	1290.52	+0.45	+5.76	2.26	17.70	1313.35
Construction	1012.68	+2.33	+23.08	2.54	11.06	1024.48
Building Matls & Merchs	1066.27	–0.94	–10.16	2.50	7.85	1073.69
Chemicals	1113.43	–0.18	–2.04	2.53	15.96	1131.15
Diversified Industrials	1045.80	+0.08	+0.82	2.11	16.20	1062.27
Electronic & Elect Equip	1095.64	+0.71	+7.69	1.67	3.25	1099.07
Engineering	1087.34	+0.85	+9.16	3.03	6.97	1094.73
Paper, Pckg & Printing	974.03	–0.08	–0.75	2.43	1.21	975.25
CONSUMER GOODS	1222.79	+0.59	+7.11	1.60	13.21	1250.30
Automobiles	1224.47	+0.97	+11.80	2.10	8.23	1233.73
Alcoholic Beverages	1033.94	+1.22	+12.43	2.19	5.82	1040.14
Food Producers	1078.54	–0.77	–8.38	1.57	7.90	1086.68
Household Goods & Texts	1118.06	+0.41	+4.52	1.87	7.01	1123.35
Healthcare	1046.20	–2.96	–31.91	6.26	9.52	1056.83
Pharmaceuticals	1042.16	+1.09	+11.25	1.29	2.07	1044.36
Tobacco	1085.58	+1.35	+14.57	3.96	1.81	1097.85
SERVICES	1279.84	+0.48	+6.05	2.05	16.08	1307.83
Distribution	966.87	–0.36	–3.45	2.25	11.37	977.73
Leisure & Hotels	997.98	–0.64	–6.46	2.53	8.12	1005.95
Media	1089.87	+1.48	+15.94	2.13	3.92	1093.97
Retailers, Food	1084.06	–0.45	–4.92	2.81	9.18	1094.18
Retailers, General	1035.90	+0.77	+7.86	2.54	13.17	1049.22
Telecommunications	1155.21	+0.68	+7.80	1.81	7.38	1163.59
Breweries, Pubs & Rests	958.71	+0.31	+2.98	3.18	8.89	965.37
Support Services	1108.67	+0.23	+2.50	0.92	5.66	1109.98
Transport	1108.90	+0.52	+5.72	2.21	7.82	1117.28
Information Technology	1251.61	–0.67	–8.39	0.33	2.23	1254.46
UTILITIES	1427.73	–0.05	–0.69	3.16	52.14	1503.73
Electricity	1068.51	–0.11	–1.13	3.34	24.85	1095.63
Gas Distribution	1155.32	–0.26	–3.05	1.63	84.81	1261.71
Water	1071.46	+0.64	+6.86	4.89	38.72	1112.38
FINANCIALS	1422.17	+0.99	+13.89	2.31	20.65	1452.71
Banks,Retail	1024.39	+0.73	+7.40	2.84	8.08	1032.75
Insurance	1049.24	+1.16	+12.01	1.26	7.86	1057.41
Life Insurance	1149.59	+3.24	+36.13	1.84	3.19	1153.40
Other Financial	1020.91	–0.01	–0.11	1.97	13.23	1034.38
Investment Companies	1071.01	–0.60	–6.46	2.35	20.86	1091.04
Property	849.89	–0.29	–2.51	3.23	16.01	865.51

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Jul 08	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.069361	+0.0016	+0.01	–0.0018	–0.01
Belgium	BEF	41.241671	+0.0009	+0.00	–0.0070	–0.02
Czech Republic	CZK	35.701712	–0.1243	–0.35	–0.4515	–1.25
Denmark	DKK	7.521404	+0.0018	+0.02	+0.0024	+0.03
Finland	FIM	6.078334	+0.0002	+0.00	–0.0004	–0.01
France	FRF	6.703634	–0.0001	+0.00	+0.0027	+0.04
Germany	DEM	1.998820	+0.0003	+0.02	–0.0002	–0.01
Greece	GRD	334.251149	–0.0896	–0.03	–2.3258	–0.69
Hungary	HUF	241.828663	+0.0166	+0.01	+0.2154	+0.09
Ireland	IEP	0.794141	+0.0001	+0.01	+0.0001	+0.01
Italy	ITL	1969.875585	–0.3369	–0.02	–0.0064	+0.00
Luxembourg	LUF	41.241671	+0.0009	+0.00	–0.0070	–0.02
Netherlands	NLG	2.254266	+0.0001	+0.00	–0.0004	–0.02
Norway	NOK	8.491450	+0.0001	+0.00	+0.0031	+0.04
Poland	PLN	3.837049	–0.0078	–0.20	+0.0053	+0.14
Portugal	PTE	204.602252	–0.1149	–0.06	+0.0913	+0.04
Romania	ROL	9587.869891	–36.8681	–0.38	+9.3613	+0.10
Russia	RUB	6.865545	–0.0227	–0.33	+0.0060	+0.09
Slovakia	SKK	38.838915	+0.1796	+0.46	+0.1503	+0.39
Spain	ESP	169.658488	–0.0381	–0.02	–0.0817	–0.05
Sweden	SEK	8.874275	–0.0346	–0.39	+0.0152	+0.17
Switzerland	CHF	1.679479	–0.0027	–0.16	–0.0015	–0.09
United Kingdom	GBP	0.671924	–0.0007	–0.10	+0.0091	+1.37
ECU	ECU	1.010745	–0.0006	–0.06	+0.0016	+0.15
Americas						
Brazil	BRL	1.275863	–0.0026	–0.20	+0.0036	+0.28
Canada	CAD	1.621285	–0.0027	–0.17	+0.0081	+0.50
Mexico	MXN	9.815936	–0.0630	–0.64	–0.0082	–0.08
United States	USD	1.100071	–0.0033	–0.30	+0.0006	+0.02
Pacific/Middle East/Africa						
Australia	AUD	1.784426	+0.0068	+0.38	+0.0040	+0.23
Hong Kong	HKD	8.523352	–0.0251	–0.29	+0.0036	+0.04
Japan	JPY	153.712956	+1.0467	+0.69	+1.1244	+0.74
Singapore	SGD	1.878372	+0.0165	+0.88	+0.0213	+1.15
South Africa	ZAR	6.781939	+0.0404	+0.60	+0.1665	+2.52

Source: FTSE International Ltd.This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1623, NLG 0.0577, BEF 0.0388, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187



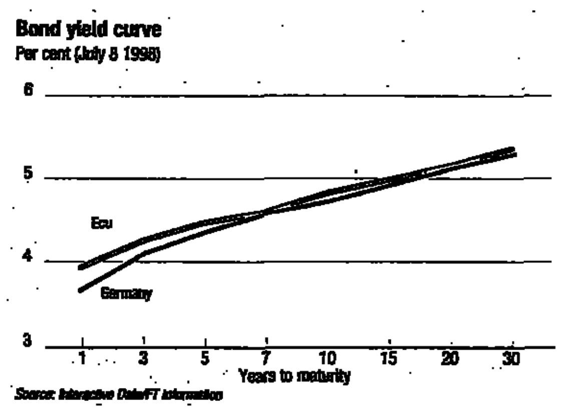
EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Jul 08	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0353	+0.00	+0.00	7.0369	3.7	+0.05
Belgium	20.6255	20.6227	–0.01	–0.01	20.629	3.71	+0.06
France	3.35386	3.3522	–0.05	–0.10	3.3522	3.65	+0.00
Finland	3.04001	3.0394	–0.02	–0.02	3.0407	3.74	+0.09
Ireland	0.402676	0.3971	–1.38	–1.40	0.4015	5.97	+2.32
Italy	990.002	985.0267	–0.50	–0.61	989.7478	4.65	+1.00
Luxembourg	20.6255	20.6227	–0.01	–0.01	20.629	3.71	+0.06
Netherlands	1.12674	1.1272	+0.04	+0.05	1.1268	3.58	–0.07
Portugal	102.505	102.3104	–0.19	–0.24	102.5738	4.19	+0.54
Spain	85.0722	84.8369	–0.28	–0.24	85.0787	4.25	+0.60
Germany	1		+0.00	+0.00		3.65	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 extrapolated from market quotes; forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS



EUROZONE CORPORATE BONDS

Jul 08	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	106.520	4.89	+0.00	–0.11	+0.04
France (Rep of)	04/08	5.250	N/A	103.410	4.80	+0.00	–0.10	–0.05
Italy (Rep of)	05/08	6.000	AA	100.520	4.93	+0.00	–0.08	+0.08
Portugal (Rep of)	06/08	5.375	AA–	103.260	4.95	+0.01	–0.09	+0.10
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	101.120	4.59	+0.00	–0.12	+0.11
Gen Electric Cap Crp	10/04	5.500	AAA	104.390	4.67	+0.02	–0.17	+0.12
Oest Kontrollbank	04/08	5.250	AAA	102.250	4.95	+0.00	–0.09	+0.10
Cred Local de France	04/08	5.250	AA+	101.050	5.11	+0.01	–0.09	+0.26
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.560	4.43	+0.01	–0.10	+0.17
Cred Foncier France	03/04	8.375	A	115.710	5.11	+0.00	–0.17	+0.56
Euro Inv Bank	04/04	5.250	AAA	103.790	4.48	+0.03	–0.11	–0.07
ABN Amro Hldg. NV	04/07	6.375	AA–	108.340	5.17	+0.01	–0.11	+0.39

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Euro "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99

GOVERNMENT BOND SPREADS vs ECU

Jul 08	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	+0.01	–0.02	+0.06	+0.01	–0.03	+0.04
Belgium	–0.03	–0.02	+0.08	+0.05	+0.03	+0.10
Finland	–0.10	+0.05	+0.12	+0.04	–0.32	–0.47
France	–0.13	–0.08	–0.05	–0.04	–0.06	–0.02
Germany	–0.15	–0.06	–0.01	–0.14	–0.05	–0.05
Ireland	+0.70	+0.01	+0.08	+0.14	+0.07	+0.22
Italy	+0.25	+0.17	+0.18	+0.15	+0.13	+0.19
Luxembourg	–0.03	–0.02	+0.08	+0.05	+0.03	+0.10
Netherlands	–0.09	–0.06	–0.02	–0.06	–0.04	–0.04
Portugal	+0.16	+0.15	+0.19	+0.16	+0.28	+0.38
Spain	+0.04	+0.08	+0.14	+0.15	+0.15	+0.32
"OUTs"						
Denmark	+0.18	+0.14	+0.16	+0.07	+0.00	+0.15
Greece	+6.41	+4.38	+3.49	+2.78	+2.42	+2.27
Sweden	+0.16	+0.11	+0.15	+0.06	+0.06	–0.09
UK	+2.89	+1.79	+1.44	+0.96	+0.44	+0.07

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Jul 08	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.02	+0.02	+0.00
France Telcom	AA+	11/06	6.250	FRF	+0.17	+0.14	+0.11
Halifax	AA	07/07	5.625	DEM	+0.19	+0.18	+0.18
Ing Bank NV	AA–	01/08	5.500	NLG	+0.19	+0.17	+0.21
Bayer Hypo W Bk	AA–	02/02	6.750	ITL	+0.30	+0.33	+0.30
Cred Foncier	A	02/03	7.250	DEM	+0.33	+0.31	+0.34
Thomson-Brandt Int	A–	03/04	6.375	FRF	+0.35	+0.38	+0.33
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.31	+0.31	+0.29
Bank of China	BBB	07/99	7.125	DEM	+0.82	+0.81	+0.64
Natl Bk of Hungary	BBB–	06/01	9.000	ATS	+0.68	+0.64	+0.67
Korea Dev Bank	B+	11/02	5.625	FRF	+5.85	+5.85	+4.42

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Sector headings: ALCOHOLIC BEVERAGES; AUTOMOBILES; BANKS,RETAIL; BREWERIES, PUBS & RESTAURANTS; BUILDING MATERIALS & MERCHANTS; CHEMICALS; CONSTRUCTION; DISTRIBUTORS; DIVERSIFIED INDUSTRIALS; ELECTRICITY; ELECTRONIC & ELECTRICAL EQPT.; ENGINEERING; EXTRACTIVE INDUSTRIES; FOOD PRODUCERS; GAS DISTRIBUTION; HEALTH CARE; HOUSEHOLD GOODS & TEXTILES; INFORMATION TECHNOLOGY; INSURANCE; INVESTMENT COMPANIES; LEISURE & HOTELS; LIFE INSURANCE; MEDIA; OIL, EXPLORATION & PRODUCTION; OIL, INTEGRATED; OTHER FINANCIAL; PAPER PACKAGING & PRINTING; PHARMACEUTICALS; PROPERTY; RETAILERS, FOOD; RETAILERS, GENERAL; SUPPORT SERVICES; TELECOMMUNICATIONS; TOBACCO; TRANSPORT; WATER

Notes: Price data and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps may include secondary lines not eligible as constituents. Stocks in italic type are quoted in Ecu countries. Trading volumes and yields derived from local consensus earnings and supplied by Ecu, part of FT Information. Company classifications are based on those used for the FTSE Eurotop share indices. Prices of stocks may move on public holidays due to currency fluctuations.

Attention switches to domestic events

GOVERNMENT BONDS

By Jeremy Grant in London and Tracy Corrigan in New York

European bonds closed mixed in mostly technically-inspired trading yesterday as attention swivelled away from the global economic picture and towards domestic events.

In the UK, gilts ended lower, nervous about a possible interest rate rise today. German bunds ended slightly lower after robust bidding at an auction of a new 10-year bund contract.

Comments by Wim Duisenberg, European Central Bank president, about the need for fiscal restraint in some European monetary union countries and optimism from Theo Waigel, German finance minister, on the outlook for "sustainably low" interest rates provided some support, traders said.

Julian Jessop, chief European economist at Nikko, said that with yields in core European markets at their lowest levels for some time, participants were taking profits. "At these sorts of levels [the tone is] nervousness about levels rather than anything else," he said.

Global bond markets were waiting to take their next cue from Japan.

"Generally, things are pretty quiet. People are waiting to get the [Upper House] elections out of the way on Sunday so that they [the Japanese government] can get down to legislation and get on with the bridge bank plan," said James Mitchell, senior market strategist at Nomura.

Greece surprised local bond and currency markets by cutting interest rates by 75 basis points, a significantly deeper reduction than expected. Short-dated Greek bonds rallied but the 10-year bond hardly moved, resulting in a flattening of the yield curve.

US TREASURIES retraced early gains in morning trading on worries about the effect of fresh supply on the market. Prices dipped ahead of the auction of $8bn of inflation-linked 30-year bonds due later in the day.

Dealers said that some selling of Treasuries ahead of the auction was to be expected.

Separately, the Treasury unveiled a new inflation-protected savings bond that will go on sale in September and will be available in eight denominations commemorating famous Americans such as Martin Luther King and Helen Keller.

Early strength in Treasury prices on continuing uncertainty over the Japanese economy, Russia's fragile finances and the dollar's strength against the yen was later overshadowed by supply concerns.

Around midday, the benchmark 30-year Treasury bond was quoted at $107\frac{7}{32}$, down $\frac{5}{32}$, to yield 5.619 per cent. Among shorter maturities, the 10-year bond was down $\frac{1}{32}$ at $101\frac{26}{32}$, to yield 5.434 per cent and five-year notes were virtually unchanged, down $\frac{1}{32}$ at 99¾ to yield 5.433 per cent.

GERMAN BUNDS were initially supported by good demand for the auction of a new 10-year bund, but fell back after profit-taking.

Graham McDevitt, head of global bond strategy at Paribas, said the strong response was evidence of underlying support for bunds.

"The old benchmark bund is the 5.25 per cent January 2008 and this was a 4.75 per cent July 2008. The yield curve suggests the spread between the two should be three basis points but the new bund is trading two [basis points] below the old one. It's evidence the market's still in a relatively bullish framework," he said.

The September 10-year benchmark future settled marginally lower at 108.77 in volume of 445,000 contracts.

UK GILT investors were holding their breath for today's decision by the Bank of England's monetary policy committee on interest rates.

Gilts underperformed other European markets, with the spread in the cash market between the benchmark gilt and bund widening by three basis points to 124 points.

"There's obviously nervousness there ahead of the announcement," said Nomura's Mr Mitchell, "but it's a very close call."

The September 10-year gilt future settled down 0.28 points at 108.55 in volume of 50,300 contracts traded. Short sterling contracts lost ground across the board as traders jostled for position ahead of today's decision.

CME lobbies CBOT on merger plan

By Nikki Tait in Chicago

Senior executives from the Chicago Mercantile Exchange, one of the two big US futures markets, were yesterday due to address the board of the rival Chicago Board of Trade, in an effort to get the merger of the two organisations' all-important, "back office" operations back on track.

The "common clearing" scheme was agreed in principle in March. It would save millions of dollars in administrative expenses at a time when both exchanges are under pressure from members to reduce costs.

However, tying up the operational details of the scheme has taken longer than expected, and an announcement last week by the CME that it had negotiated a deal that would give members access to the US Treasury cash market via the electronic trading system run by US broker-dealer Cantor Fitzgerald raised doubts over whether CBOT would continue to support the deal.

On Monday, CBOT said it was calling the special board meeting to consider the common clearing proposal. Patrick Arbor, CBOT chairman, warned that support would be "more difficult" to secure in the wake of the CME deal, although he added that he personally remained committed to the scheme. The meeting was due to start yesterday afternoon.

The CME deal, which ostensibly has nothing to do with the common clearing plan, is sensitive because of the CBOT's own battles with Cantor Fitzgerald.

On the one hand, the broker-dealer has teamed up with the New York Board of Trade (formerly the New York Cotton Exchange) to devise an electronic-based trading system for US Treasury futures – a scheme that is still awaiting regulatory approval but could compete with CBOT's existing bond futures business.

On the other hand, Cantor is challenging plans by the CBOT and Prebon Yamane to use software supplied by Market Data Corporation, which was spun off from Cantor's own computer programming department, to launch an electronic system for cash trading of US Treasuries, known as Chicago Board Brokerage (CBB).

Court proceedings, which could delay the launch of CBB, are under way.

CBOT's surprise decision to call for a board vote on common clearing this week prompted Scott Gordon, CME chairman, to offer to address the CBOT board in an effort to assuage concerns over the Cantor deal.

"Given the importance of the relationship between our exchanges and the fact that we both face similar challenges of ever-increasing magnitude, it is critically important that we do not look upon one another in an antagonistic light," he wrote to Mr Arbor this week.

Mr Gordon also pointed out that the CBB initiative could have competitive implications for the CME's eurodollar business.

"We nonetheless have not let that potential result affect our desire to work closely with you on common clearing," he added.

Household names tap the US dollar sector

INTERNATIONAL BONDS

By Edward Luce

The primary markets yesterday matched the furious pace set on Tuesday with a number of household names tapping the US dollar market.

For the first time in weeks, syndicate officials talked of "buoyant conditions" and "healthy demand" for US dollar bonds.

"To be honest this [level of issuance] probably isn't going to last for very long before the market goes quiet for the summer break," said one senior banker. "Partly, it is because there has been such little supply over the last two months."

Officials said bond redemptions in US dollars were running at about $16bn for both June and July – well ahead of average rates.

In addition, demand had been suppressed by half-yearly stock-taking on the part of investors. "There was a lot of dumping of inventory towards the end of June," said one banker. "Now that's out of the way."

FANNIE MAE, which is coming to the markets today with a $2bn add-on to the $3bn bond it launched in May, demonstrated what had deterred dollar borrowers in the last few weeks.

Today's issue is expected to be priced to yield between 37.5 and 38 basis points over the Treasury benchmark compared with a spread of 33 basis points in May. The bond, which will be underwritten by CSFB, Merrill Lynch and J. P. Morgan, will count as the agency's July benchmark offering.

GILLETTE, the US consumer company, paid its first (and probably only) visit to the market this year with a $200m offering. The three-year bond, priced to yield 24 basis points over the two-year Treasury, proved a hit with Swiss and Benelux retail investors, tightening by about two basis points after launch.

INTERNATIONAL BUSINESS MACHINES, another retail-friendly name, also spotted a window of opportunity, coming to the market with a $250m four-year offering. Investors were attracted by the 40 basis point yield spread on the deal.

STADE FINANCE, the vehicle representing the companies that built the French sports stadium, finally came to the market after a one-year gestation period.

The FFr799.3m offering came just four days before the stadium plays host to the final of the World Cup football tournament. The bond is secured against box office takings from future events.

SANTANDER FINANCE, the vehicle set up for the Spanish bank, became the first borrower to issue a tier-one perpetual bond with a fixed-rate coupon. The E250m bond follows a flurry of small floating-rate tier-one perpetuals in recent weeks. It was jointly led by Warburg Dillon Read.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae(a)★	2bn	6.00(l)#	(a)R	(a)R	0.15R	(a)(5%May08)	CSFB/JP Morgan/Merrill
Merrill Lynch & Co	700	6.50#	99.15R	Jul 2018	0.875R	+97(6⅛%Nov27)	Merrill Lynch International
Merrill Lynch & Co	500	6.00#	99.384R	Jul 2005	0.40R	+80(6½%Aug05)	Merrill Lynch International
Svenska Handelsbanken‡	400	(b)	100.028	Jul 1999	0.05	-	Merrill Lynch International
IBM Corp	250	6.00	100.274R	Jul 2002	0.25R	+40(5¾%May01)	Warburg Dillon Read
Gillette Company	200	5.75	99.962R	Aug 2001	0.20R	+24(5⅝%May01)	ABN Amro
Federal Home Loan Banks	200	zero	94.652	Jul 1999	0.05	+20(T-bill)	Nomura International
@Entertainment(c)	125	(c1)#	49.643	Jul 2008	3.25	+910(May08)	Merrill Lynch & Co
D-MARKS							
Royal Bank of Scotland	500	5.25	99.263R	Jul 2008	0.40R	+65(5¼Jan08)	Goldman Sachs & Co
Bayerische VB Overseas	250	4.25(l)	99.58R	Aug 2002	0.225R	+12(4½May02)	Bayer/VB/CSFB
Municipality of Budapest	150	4.75	99.35R	Jul 2003	0.30R	+57(6%Apr03)	DG Bank
STERLING							
Meridian Hospital Co(d)	91.2	4¼(s)	100.026	Jun 2028	1.00	+160(IL-16)	Barclays Capital
FRENCH FRANCS							
Promodes(f)Φ	3.03bn	3.50	100.00	Jul 2003	undiscl	-	SG
Stade Finance	799.3	5.25(l)	99.46	Aug 2013	0.50	+35(i)	CSFB
EUROS(e)							
LKB Baden-Wuerttemberg	500	4.625	99.357R	Jul 2005	0.30R	+17(6%May05)	Barclays Capital/BNP
Santander Finance(g)	250	6.15(q,s)	100.00	undated	undiscl	-	Santander/Warburg DR
SOUTH AFRICAN RAND							
European Investment Bank	350	15.00	99.22	Jul 2003	2.00	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ΦWith equity warrants. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $3bn. Plus 63 days accrued. Priced today 37½-38bp over Treasuries. b) 3-mth Libor -6¼bp; long last. c) Callable from 15/7/03 at 107¼% falling ratibly to par. Equity clawback. c1) zero to 15/7/03, then 14.5%. d) Linked to RPI. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Denom: FFr5,300 + one 5-yr wrt to Promodès shares at FFr5,300. Wrts redeemable at FFr150. g) Preference shares. Callable from 5/8/03 at par. i) Over interpolated yield. l) Long 1st coupon. q) Quarterly. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jul 8	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.0757	5.15	-	-	+0.06	-0.18
	10/07	10.000	132.6320	5.42	+0.02	-0.04	-0.07	-1.35
Austria	09/99	7.000	103.5200	3.89	+0.02	-0.04	-0.20	+0.06
	07/07	5.625	105.8800	4.81	+0.01	-0.04	-0.11	-0.78
Belgium	01/00	4.000	99.9800	4.01	+0.08	-0.03	-0.13	+0.49
	03/07	6.250	109.8400	4.84	-	-0.05	-0.12	-0.77
Canada	09/99	4.750	99.5600	5.15	-0.03	-0.11	-0.04	+0.78
	06/07	7.250	114.1000	5.23	-0.01	-0.12	-0.09	-0.77
Denmark	12/99	6.000	102.3500	4.22	-	-0.02	-0.14	+0.18
	11/07	7.000	115.4200	4.90	+0.01	-0.08	-0.15	-1.23
Finland	01/99	11.000	103.5448	3.68	-0.01	-0.04	-0.12	-0.06
	04/06	7.250	116.6130	4.79	-0.01	-0.04	-0.10	-1.08
France	01/00	4.000	100.1100	3.91	-	-0.04	-0.14	+0.32
	10/04	6.750	112.1100	4.49	+0.01	-0.04	-0.15	-0.46
	10/07	5.500	105.3800	4.77	+0.02	-0.02	-0.10	-0.85
	10/25	6.000	109.6200	5.31	-	-0.03	-0.09	-0.99
Germany	09/99	4.000	100.2400	3.78	-0.01	-0.04	-0.13	+0.31
	11/04	7.500	115.9400	4.54	-	-0.04	-0.14	-0.58
	07/07	6.000	109.1600	4.72	+0.01	-0.04	-0.12	-0.83
	07/27	6.500	117.5400	6.30	+0.01	-0.04	-0.09	-1.07
Ireland	04/99	6.250	100.6900	5.18	-0.02	-0.18	-0.36	-0.78
	08/06	8.000	119.8400	4.97	+0.01	-0.07	-0.12	-1.41
Italy	05/00	6.000	102.9300	4.32	-0.01	-0.07	-0.16	-1.53
	05/02	6.250	106.0600	4.51	-0.01	-0.07	-0.19	-1.45
	07/07	8.750	113.1600	4.92	-0.01	-0.09	-0.13	-1.80
	11/26	7.250	125.6800	5.47	+0.01	-0.08	-0.09	-1.78
Japan	03/00	6.400	109.8500	0.51	+0.04	-0.03	+0.09	-0.34
	12/02	4.800	116.4400	1.00	+0.05	-0.04	+0.18	-0.73
	09/05	3.000	110.7000	1.49	+0.06	-0.03	+0.22	-0.90
	09/17	3.000	111.4700	2.26	+0.06	-0.03	+0.23	-0.74
Netherlands	11/99	7.500	104.5500	3.92	-0.02	-0.07	-0.12	+0.37
	02/07	5.750	107.1400	4.72	-	-0.04	-0.10	-0.75
New Zealand	02/00	6.500	98.9951	7.15	-0.10	+0.05	-0.82	+0.45
	11/06	8.000	110.6879	6.30	-0.06	-0.07	-0.32	-0.60
Norway	01/99	9.000	101.8834	5.32	-0.04	+0.16	+0.56	+0.86
	01/07	6.750	108.8400	5.42	-0.01	-0.13	+0.07	-0.56
Portugal	03/99	8.500	102.7500	4.31	-0.03	+0.06	+0.04	-0.85
	02/07	6.625	111.5200	4.95	-	-0.05	-0.08	-1.34
Spain	07/99	7.400	103.2200	4.18	+0.02	-0.03	-0.05	-0.75
	03/07	7.350	117.1100	4.89	+0.01	-0.04	-0.12	-1.33
Sweden	01/99	11.000	103.4287	4.08	+0.01	-	-0.16	-0.55
	08/07	8.000	122.8200	4.86	-0.01	-0.07	-0.13	-1.62
Switzerland	03/00	5.000	104.6580	2.11	-	-0.02	+0.14	+0.68
	06/07	4.500	110.3500	3.15	+0.05	+0.06	+0.17	-0.11
UK	08/99	6.000	98.6563	7.30	+0.03	+0.10	+0.39	+0.24
	11/04	6.750	103.5313	6.07	+0.02	+0.01	+0.13	-1.01
	12/07	7.250	109.8828	5.87	+0.04	+0.03	+0.11	-1.16
	06/21	8.000	130.6797	5.61	+0.01	-	-0.01	-1.31
US	10/99	5.625	100.1640	5.48	-0.01	-0.04	-0.14	-0.42
	11/04	7.875	112.5230	5.51	+0.01	-0.01	-0.15	-0.88
	08/07	6.125	104.2340	5.53	+0.01	-0.01	-0.15	-0.74
	08/27	6.375	110.1170	5.66	+0.01	-0.03	-0.18	-0.92
ECU	01/00	4.000	99.8900	4.06	-	-0.08	-0.17	+0.04
	04/07	5.500	105.0800	4.77	-	-0.04	-0.12	-1.07

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jul 8	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.42	+0.71	-
Austria	4.86	+0.15	-0.58
Belgium	4.90	+0.19	-0.52
Canada	5.23	+0.52	-0.19
Denmark	4.92	+0.21	-0.50
Finland	4.89	+0.18	-0.53
France	4.81	+0.10	-0.61
Germany	4.71	-	-0.71
Ireland	4.99	+0.28	-0.43
Italy	5.00	+0.29	-0.42
Japan	1.68	-3.03	-3.74
Netherlands	4.79	+0.08	-0.63
New Zealand	6.31	+1.60	+0.89
Norway	5.41	+0.70	-0.01
Portugal	5.01	+0.30	-0.41
Spain	5.00	+0.29	-0.42
Sweden	4.91	+0.20	-0.51
Switzerland	3.15	-1.56	-2.27
UK	5.81	+1.10	+0.39
US	5.42	+0.71	-
ECU	4.85	+0.14	-0.57

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Jul 8	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.4743	7.81	-0.23	+0.26	+2.38
Poland	07/04	7.125	BBB-	102.7494	6.56	-0.06	-0.13	+1.13
Russia	06/07	10.000	B+	70.2500	16.46	-0.01	+4.57	+11.04
LATIN AMERICA								
Argentina	09/27	9.750	BB	95.0000	10.29	-0.11	-0.10	+4.69
Brazil	05/27	10.125	BB-	87.0000	11.70	-0.11	+0.65	+6.10
Mexico	05/26	11.500	BB	115.0000	9.89	-0.10	+0.27	+4.30
ASIA								
China	07/08	7.750	BBB+	105.3886	6.85	-0.22	+0.04	+1.43
Philippines	10/16	8.750	BB+	94.3555	9.40	+0.08	-0.18	+3.90
Thailand	04/07	7.750	BBB-	90.3223	9.41	-0.19	+0.60	+3.99
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.6750	8.08	-0.11	+0.02	+2.64
South Africa	10/06	8.375	BB+	101.6663	8.08	-0.06	+0.46	+2.66
Turkey	09/07	10.000	B	97.8559	10.38	+0.26	+0.63	+4.94
BRADY BONDS								
Argentina	03/23	5.750	BB	75.6250	8.32	-0.08	-0.04	+2.76
Brazil	04/14	5.000	B+	74.5000	10.82	-0.12	+0.46	+5.40
Mexico	12/19	6.250	BB	83.7500	7.82	-0.03	+0.03	+2.20
Venezuela	03/20	6.750	B+	78.5000	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	104.38	104.90	-0.04	105.03	104.76	92,401	131,366
Dec	104.47	104.56	-0.04	104.47	104.47	23	0

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
102	3.00	3.03	2.80	0.01	0.06	0.26
103	2.02	2.09	2.01	0.02	0.10	0.37
104	1.07	1.23	1.35	0.07	0.24	0.70
105	0.37	0.57	0.84	0.37	0.57	1.17

Est. vol. total, Calls 4,205 Puts 10,072. Previous day's open int., Calls 41,020 Puts 39,787

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	108.80	108.77	-0.05	108.95	108.57	9805	70737
Dec	108.20	108.15	-0.05	108.20	108.20	57	170

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
10850	0.46	0.68	0.56	0.82	0.19	0.41	0.91	1.17
10900	0.19	0.41	0.36	0.61	0.42	0.64	1.21	1.46
10950	0.07	0.23	0.22	0.44	0.80	0.96	1.57	1.79

Est. vol. total, Calls 14394 Puts 11654. Previous day's open int., Calls 184895 Puts 129579

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	105.85	105.87	+0.02	105.94	105.81	98,066	258,893
Dec	-	105.39	+0.03	-	-	2,710	12,830

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	120.84	120.88	-0.04	121.05	120.66	25807	102301
Dec	-	107.15	-0.04	-	-	0	3985

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Aug	Calls Sep	Puts Aug	Puts Sep
10300				
10350				
10400				

Est. vol. total, Calls 200 Puts 18. Previous day's open int., Calls 9370 Puts 12903

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
10850	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10900	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10950	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, [illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	n/a
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	103.80	+0.24	-	-	0	16

US CORPORATE BONDS

Jul 7	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.4495	5.97	-	-0.09	+0.56
NY Tel	08/25	7.00	A+	101.6405	6.86	+0.01	-0.11	+1.27
CWE	05/08	8.00	BBB	111.8154	6.36	+0.01	-0.12	+0.95
FINANCIALS								
GECC	05/07	8.75	AAA	118.7949	5.98	+0.02	-0.18	+0.57
Banc One	08/02	7.25	A+	104.2314	6.05	-	-0.12	+0.64
US West	01/07	7.30	BBB	105.5437	6.44	-	+0.25	+0.98
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0713	6.13	-	+0.06	+1.06
Wal Mart	05/02	6.75	AA	103.0331	5.85	+0.01	-0.07	+0.44
Dayton Hud	06/21	9.70	BBB+	138.2001	6.61	+0.03	-0.14	+1.02
AGENCIES								
FHLMC	04/07	7.14	N/A	109.7404	5.70	+0.01	-0.19	+0.29
SLMA	03/00	7.50	N/A	102.9431	5.61	-	-0.10	+0.19
FNMA	02/18	8.95	N/A	135.1133	5.90	+0.03	-0.18	+0.31
FFCB	06/06	8.95	N/A	120.6866	5.66	+0.02	-0.18	+0.25
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB-	105.1250	0.00	-	-	-
Pacalta	06/04	10.75	B-	99.7500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.43
Broker loan rate	7⅛	Two month	-	Three year	5.44
Fed.funds	5⅞	Three month	5.10	Five year	5.42
Fed.funds at intervention	-	Six month	5.25	10-year	5.41
		One year	5.33	30-year	5.60

INTERNATIONAL BONDS

Jul 8	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govs
EURO DM								
EIB	02/07	5.750	AAA	106.2600	4.84	+0.03	-0.05	+0.12
Spain	01/07	5.750	AA	106.2200	4.83	+0.01	-0.09	+0.11
Philip Morris	03/04	6.375	A	101.8500	4.99	-0.04	+0.06	+0.48
Finland FRN	09/02	3.629	AA	100.6794	3.78	+0.01	-0.17	-0.49
EURO FFR								
Austria	01/04	5.500	AAA	104.6900	4.52	+0.02	-0.15	+0.05
Abbey Nat	02/04	6.000	AA	106.5700	4.63	+0.03	-0.14	+0.16
Cred Foncier	02/04	9.125	A	120.6700	4.82	+0.01	-0.12	+0.35
SCIF FRN	12/01	3.633	AA-	99.9293	4.03	-	-0.14	-0.14
EURO LIRA								
EIB	02/07	7.000	AAA	114.0000	4.55	-	-0.13	+0.02
Abbey Nat	02/02	6.800	AA	106.9000	4.65	-0.01	-0.17	+0.12
Walt Disney	06/00	8.625	A	107.2500	4.62	-0.02	-0.17	+0.23
EIB FRN	03/01	4.692	AAA	100.0767	4.19	-0.02	-0.16	-0.24
EURO £								
EIB	12/07	7.625	AAA	109.3498	6.27	+0.03	+0.28	+0.37
Dresdner Bk	12/07	7.750	AA-	108.5235	6.78	+0.01	+0.16	+0.88
British Gas	03/00	7.625	A+	99.8263	7.70	+0.01	+0.58	+0.67
Abbey Nat FRN	02/02	7.650	AA	99.9685	6.48	+0.02	+0.28	+0.02
EURO $								
EIB	04/07	7.250	AAA	109.5300	5.83	-	-0.16	+0.41
ABN Amro	06/07	7.125	AA-	105.6338	6.29	-	-0.12	+0.87
Quebec	01/07	7.000	A+	105.4452	6.17	-	-0.11	+0.75
Citicorp FRN	02/04	5.754	A+	100.4433	5.57	-	+0.02	+0.14
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.1129	5.69	+0.01	+0.03	+0.20
Toronto	05/04	8.500	AA+	113.8823	5.65	-0.01	+0.01	+0.16
Bell Canada	07/99	10.625	A+	104.7527	5.63	-	+0.01	+0.96
Deutsche B FRN	09/02	5.875	AAA	100.8968	5.63	-0.01	-	+0.16
EURO YEN								
World Bank	03/02	5.250	AAA	115.7017	0.91	+0.04	+0.16	-
Spain	03/02	5.750	AA	117.5500	0.90	+0.01	+0.15	-0.01
Cred Foncier	08/02	4.750	A	113.2967	1.37	+0.04	+0.14	+0.46
Italy FRN	07/99	0.711	AA	100.2370	0.14	+0.02	+0.03	-0.31

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Jul 8	Day's change %	Tue Jul 7	Accrued interest	xd adj. ytd
1 Up to 5 years (18)	118.32	-0.05	118.37	2.04	5.52
2 5-15 years (19)	161.50	-0.20	161.82	1.73	6.31
3 Over 15 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Irredeemables (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks (48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-linked					
6 Up to 5 years (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Over 5 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 All stocks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK Indices

	Low coupon yield Jul 8	Jul 7	Yr. ago	Medium coupon yield Jul 8	Jul 7	Yr. ago	High coupon yield Jul 8	Jul 7	Yr. ago
5 yrs	6.31	6.27	7.00	6.37	6.34	7.06	6.32	6.29	7.12
15 yrs	5.58	5.56	7.00	5.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20 yrs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Irred.†	[illegible]	[illegible]	[illegible]						

Average gross redemption yields are shown above. [illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Yen weakens amid tax cut gloom

MARKETS REPORT

By Daniel Dombey

Continuing confusion over whether the Japanese government is contemplating permanent tax cuts damaged the yen yesterday, but the currency remained within the trading range it has inhabited for most of the last three weeks.

At the end of the European trading day, the currency stood at Y139.7 against the dollar, compared with Y138.4 the day before.

"The Japanese have come out with one of those statements with nothing in the way of specifics, but only vague promises, and the markets really aren't too keen on those," said Robin Aspinall at National Australia Bank in London.

Ryutaro Hashimoto, the Japanese prime minister, vowed to introduce tax cuts as part of a "permanent reform of the tax system".

■ Tax cuts have become the markets' pet obsession ever since US treasury officials suggested cuts were indispensable for dragging Japan out of its present economic morass.

But Mr Hashimoto proved reluctant to commit himself to widening the tax base to lower income groups so as to cut top tax rates. That, and the absence of any numbers from his statement, was not to the markets' liking.

"The question is whether this is all a big distraction," said Mr Aspinall. "I don't think the Japanese government would have come far this far down the road to tax cuts without US pressure, but the state of Japan's banks is much more critical."

Mr Aspinall believes that the diminishing controls on Japanese funds will push the yen down to Y160 to the dollar and below within the next six to twelve months.

■ Wim Duisenberg, President of the European central bank, said yesterday that the ECB would hold reserves of ECU39.5bn, with gold making up 15 per cent of the total. The announcement was in line with market expectations.

He added that the European economy was showing steady growth and low inflation, and that interest rate convergence would continue only gradually.

Several European central bankers have made recently clear they expect eurozone rates to remain low. The growing assumption that the area will begin next year with rates at 3.5-3.7 per cent has depressed the D-Mark.

This comes on top of slackening efforts to cut fiscal deficits, which yesterday earned a "yellow card" from Mr Duisenberg.

But such signs of fiscal and monetary complacency have so far not weakened the general belief that the D-Mark will strengthen against sterling and the dollar in the last quarter of the year, when the rate rises are expected to be announced.

In nervous trading ahead of today's vote on interest rate by the Bank of England's monetary policy committee, the pound ended at DM2.976 compared with DM2.973 the day before.

The drachma moved to its highest levels against the D-Mark since the currency entered the European Exchange Rate Mechanism in March. A 75 basis point cut in two week interest rates to 13 per cent exceeded expectations, but is thought likely to add to the attractiveness of Greek shares.

■ In the face of increasing market scepticism, Russia moved to shore up its finances through recourse to very short-term debt. Three previously planned treasury auctions will be replaced with two new sales of paper maturing in August.

But the D-Mark, which has been linked to the rouble's fate because of German banking and trade ties with Russia, remained steady. It ended the European day at DM1.818 against the dollar, compared with DM1.812 the day before.

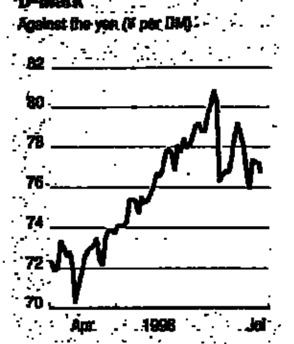
"The pressure will remain on Germany until it is clear that Russia is going to finalise its debt problems," said Derek Halpenny at Bank of Tokyo-Mitsubishi.

By seeking to plug the gap in its finances with such short term debt, the Russian government hopes to take advantage of a prospective agreement with the International Monetary Fund, which it expects by August.

Concerns about Russia's liquidity have increased yields in Russian bonds to over 100 per cent.

D-Mark

Against the yen (¥ per DM)



Source: Datastream/ICV

■ POUND IN NEW YORK

Jul 8	—Latest—	— Prev. close —
£ spot	1.6370	1.6375
1 mth	1.6342	1.6347
3 mth	1.6282	1.6290
1 yr	1.6040	1.6048

■ OTHER CURRENCIES

Jul 8	£	$
Czech Rp	53.0696 - 53.1778	32.4350 - 32.4730
Hungary	359.654 - 360.157	219.730 - 219.930
Iran	4912.80 - 4910.40	3000.00 - 3000.00
Kuwait	0.5023 - 0.5027	0.3069 - 0.3070
Peru	4.7876 - 4.7933	2.9250 - 2.9270
Poland	5.7059 - 5.7152	3.4860 - 3.4900
Russia	10.2196 - 10.2218	6.2400 - 6.2420
U.A.E.	6.0115 - 6.0151	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jul 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. index
Europe													
Austria	(Sch)	20.9390	+0.0254	293 - 487	20.9841	20.8720	20.8881	4.1	20.7172	4.2	20.1512	3.8	103.1
Belgium	(BFr)	61.3787	+0.0684	309 - 264	61.4740	61.1910	61.1776	3.9	60.751	4.1	59.085	3.7	102.3
Denmark	(DKr)	11.3427	+0.0151	383 - 471	11.3583	11.3110	11.3091	3.6	11.2363	3.8	10.9453	3.5	104.9
Finland	(FM)	9.0462	+0.0101	389 - 535	9.0570	9.0230	9.0159	4.0	8.9541	4.1	8.7066	3.7	80.8
France	(FFr)	9.9771	+0.0108	730 - 812	9.9931	9.9503	9.9428	4.1	9.8717	4.2	9.5987	3.8	105.6

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.7895	+0.0398	867 - 923	12.8010	12.7385	12.7678	2.0	12.7245	2.0	12.5625	1.8	102.9
Belgium	(BFr)	37.4900	+0.1125	700 - 100	37.5110	37.3560	37.43	1.9	37.3045	2.0	36.82	1.8	102.4
Denmark	(DKr)	6.9281	+0.0223	271 - 291	6.9338	6.9018	6.9192	1.5	6.9001	1.6	6.8206	1.5	104.5
Finland	(FM)	5.5254	+0.0166	223 - 285	5.5297	5.5055	5.516	2.0	5.4982	2.0	5.4289	1.7	80.6
France	(FFr)	6.0940	+0.0181	930 - 950	6.0985	6.0731	6.0833	2.1	6.0621	2.1	5.9814	1.8	105.4

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

EMS EUROPEAN CURRENCY UNIT RATES

UK INTEREST RATES

LONDON MONEY RATES

BASE LENDING RATES

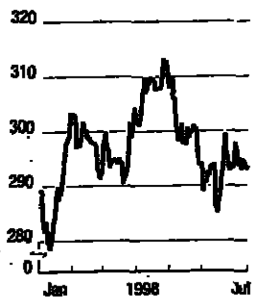
Gold little changed by ECB news

MARKETS REPORT

By Robert Corzine and Kenneth Gooding

There was a muted reaction in the bullion market to news that the European Central Bank would hold 15 per cent of its planned $43bn of reserves in gold. Traders *said the price was anticipating* this decision.

Gold price
$ per troy ounce



Source: Datastream/ICV

When, on June 9, Wim Duisenberg, president of ECB, said there was a consensus among European central bankers that gold should be 10 per cent to 15 per cent of the bank's *reserves*, the price fell nearly 2 per cent, from $298 to $292.30 a troy ounce. Yesterday, it eased back to close in London at $293 from Tuesday's $294.50.

This small fall reflected disappointment that Mr Duisenberg had not mentioned a freeze on gold sales by European central banks.

"I think there were some buyers hoping there would be some comments about the ECB *reserve management* rules," said Kamal Naqvi, at Macquarie Bank. "New York had expected fairly supportive words about a limit on gold sales and obviously that's not been realised."

On the London Metal Exchange nickel slipped to *4¼-year lows in late trading*. Traders said that, once nickel broke through resistance at $4,200, it quickly fell to $4,180 before stabilising and then recovering to close at $4,210 a tonne, down $45.

Events in Nigeria moved the oil markets yesterday, *although operators reported* that production had not been affected by the death of Chief Moshood Abiola and the disturbances that *followed*.

Brent Blend for August delivery was up 39 cents to $13.14 a barrel in late trading on London's International Petroleum Exchange.

Traders said renewed political uncertainty in Nigeria and modestly bullish stock data from the US helped push prices higher.

The US Department of Energy reported a 2.9m barrel fall in crude oil inventories *and a 4.2m barrel reduction* in gasoline stocks over the past week.

The American Petroleum Institute reported a less dramatic drop in gasoline stocks of 1.4m barrels and took a conflicting view on crude stocks by reporting a small rise of 658,000 barrels.

The markets have been waiting for a steady fall in crude inventories before passing judgment on the latest *production cuts by the* Organisation of Petroleum Exporting Countries. However, some traders say the overall sentiment remains wary.

Meanwhile, Iran yesterday hit back at Luis Giusti, head of Venezuela's state oil company, who earlier in the week had accused Tehran of overproducing.

It said Mr Giusti's policy of "unrestrained production expansion" *had* damaged producers.

LME expects sharp drop in turnover

By Kenneth Gooding, Mining Correspondent

London Metal Exchange turnover, which soared 1,000 per cent in the past 10 years, will fall substantially in 1998, at a time when the exchange's costs are rising rapidly.

David King, chief executive, said yesterday, however, that the downturn in activity was expected.

"The exchange follows the fortunes of base metals and is bound to reflect the cycles," Mr King said. The LME's 1998 budget anticipated a drop in volume because of falling metals prices and "we are ahead of budgeted turnover".

In the first six months of this year, futures turnover on the exchange dropped by *12.7 per cent to 21.2m lots* and total turnover – including options – was down by 15.7 per cent to 22.3m lots.

Meanwhile, the LME reported to members that its administrative expenses last year jumped by 28 per cent, from £7.79m to £10m.

Mr King said a further 25 per cent rise in costs was expected in 1998 as the number of people employed by the exchange had been increased from 45 to 70.

This was in line with a recommendation in the Securities and Investment Board review that the LME asked *for after the Sumitomo copper* scandal.

"Compared with our US counterparts and other UK exchanges, the cost per unit traded on the LME is still very modest," Mr King insisted. No increase in charges to members was *contemplated at present*.

The LME accounts show that in 1997 total income jumped by 50 per cent compared with the previous year, from £8m to £12m. Turnover last year increased by 21 per cent, to 51m lots, "making this exchange the unrivalled world leader in its field", *according* to Lord Bagri, chairman.

Mr King said action had been taken on all the SIB recommendations by the end of last year, although it would take time to complete some of the changes.

The board had been *restructured, as had LME* committees, to include producers and consumers as well as brokers. The executive had been strengthened in numbers and in quality of people.

At present there was no pressure to change the LME's open outcry system of trading but the exchange would be able to respond quickly to technological changes.

For example, a pilot electronic *trading system had* been built three years ago and the LME had retained PricewaterhouseCoopers to "evaluate every facet of information technology as it touches LME business life."

Mexican gold cloud has silver lining

Hard-pressed prospectors are learning from the country's history, says **Henry Tricks**

Canadian prospectors who headed south when Mexico opened its mining industry to foreigners a few years ago are finding that gold is not all that glisters *in the mountains of the* Sierra Madre.

Dreams of riches have been shattered by the plunge in the price of gold to its lowest level in some 25 years. The prospectors, or "junior" exploration companies, have also struggled to convince investors to lend them money in the wake of the Bre-X scandal, in which a Canadian company falsely claimed to have found the *world's biggest gold deposit* in Indonesia.

However, for some companies there is, literally, a silver lining. Many have shelved plans to explore for gold while prices remain weak and are looking for silver and other associated metals instead.

Mexico is the world's largest silver producer, excavating 2.7m kg in 1997. According to José Luis Lee, *president of the Mexican* Mining Chamber, silver production could rise 20-30 per cent in the next three or four years, because of increased exploration and investment, if prices remain steady.

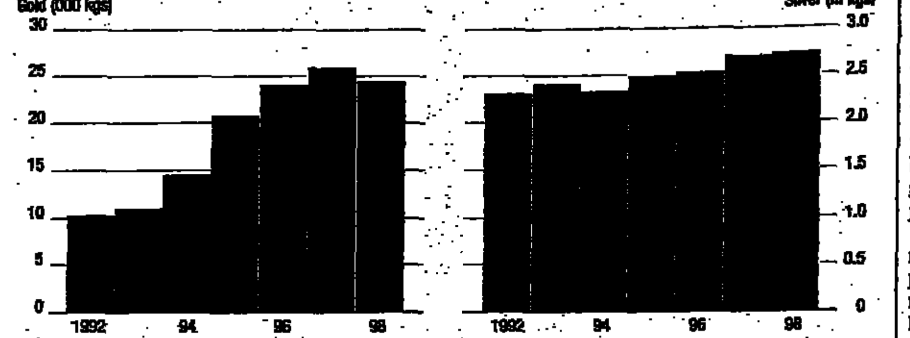
Mexico's gold production *was 26,000kg last year, more* than double the 11,000kg produced in 1993, but is still *modest* by global standards.

"The history of Mexico is silver, not gold," says Brad Cooke of Kanarc Resource Corp of Vancouver, which went prospecting for gold in Chihuahua state in 1995 but ended up focusing on silver, lead, zinc and copper. "We just found other things that were more exciting than gold."

The swarm of Canadian mining companies entering the country – including large producers such as Vancouver-based Teck Corp and Farallon, as well as juniors that focus chiefly on exploration – have changed the face of Mexican mining in the past five years.

Only a quarter of Mexico has been explored for minerals and some was first *mapped by the Spanish* almost 500 years ago.

Mexican mining production



Source: Office of Mines

Teck Corp's discovery of a 70m tonne silver, copper and zinc reserve in Zacatecas has *helped persuade another* large Canadian company, Toronto-based Noranda, to scrap plans to cut its base metal exploration in central Mexico.

Canadian companies are also entering poor and sometimes lawless southern states, such as Oaxaca and Guerrero, where there were virtually no mining groups until just a few years ago.

Gunther *Muller*, head of mining at the Canadian-Mexican Chamber of Commerce, says that since Mexico changed the laws limiting foreign investment in the mining industry in 1992-93, Canadians have taken stakes in 130 of 195 *mining ventures set up in* Mexico with foreign capital.

More than 95 per cent of the concessions so far granted to Canadians have *been six-year exploration* licences, Mr Muller says. He expects Canadians to invest $1.3bn in the industry in the next two years, up from $600m in 1995-97.

Most new companies are juniors, which hire experts to "groom" for information on mineral deposits in Mexico, raise money in Vancouver to pay for exploration, then develop the mine or sell it to a big producer.

Most cut their teeth in Mexico in gold, and many have returned home penniless since prices plunged. But some are holding out for a price recovery of gold in the long term, and exploring for other metals meanwhile.

Mr Muller, who heads *Vancouver-based* Viceroy Resource, says his company had a gold concession on the Baja California peninsula with estimated reserves of *1.5m ounces that has been* shelved until the company can find financing of some $100m to mine it.

"We're now looking at silver," he says. "You go out with a preference for gold, but gold doesn't come on its own. If you concentrate on just one product you are vulnerable."

Enrique Miranda, head of Miranda Mining Development Corp, which is based in *Canada and is exploring gold* and polymetallic projects in the state of Guerrero, points to the success of large Mexican mining companies such as Peñoles and Sanluis which have exposure to both gold and silver. He says they are models. "The name of *the game is diversification*," Mr Miranda says.

Russia palladium exports 'to fall'

By Kenneth Gooding, Mining Correspondent

Exports of palladium from Russia, the biggest producer, could fall by 20 per cent to 2m troy ounces this year, the lowest level of exports from the country since 1992, according to consultancy CPM.

The New York-based group added its weight to warnings from other market observers that there will not be enough palladium, which is used mainly in electronic equipment and for automotive anti-pollution catalysts, available in future.

CPM says demand for palladium outpaced supply last year for the first time since 1989 and the deficit is set to widen this year. It admits, however: "It is hazardous to guess what future Russian palladium exports will be."

The consultancy's latest report projects that the *supply deficit*, which it estimates was 562,000 ounces last year, will increase to 1.214m ounces in 1998.

Total demand is forecast to rise by 3.2 per cent to 6.8m ounces while supply is predicted to drop by 7.3 per cent *to 5.6m*.

Russian exports are the most volatile component of the platinum market. CPM suggests that Russia's platinum exports fell by 25 per cent to 750,000 ounces last year and will fall to 650,000 ounces in 1998.

It suggests that, after 11 years of surpluses, the platinum market saw a 41,000 ounce deficit last year and that in 1998 the market will be balanced. *Supply is projected* to fall by 1.1 per cent to 5.1m ounces and demand to fall by 1.9 per cent to 5.1m ounces.

Platinum Group Metals Survey 1998, from CPM, 30 Broad Street, 37th floor, New York, NY 10004. $80 including postage.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1268-69	1296-97
Previous	1267.5-68.5	1295.5-97
High/low		1300/1293
AM Official	1264.5-65.0	1293-94
Kerb close		1295-96
Open int.	287,398	
Total daily turnover	70,954	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1187-92	1172-75
Previous	1180-90	1170-75
High/low		1180/1170
AM Official	1190-200	1170-75
Kerb close		1170-75
Open int.	7,362	
Total daily turnover	1,239	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	522-3	522-3
Previous	532-3	525-6
High/low		530/523
AM Official	527-28	523.5-24.0
Kerb close		525
Open int.	37,637	
Total daily turnover	8,706	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4165-75	4220-30
Previous	4190-200	4250-60
High/low		4280/4180
AM Official	4155-65	4215-20
Kerb close		4220-30
Open int.	52,734	
Total daily turnover	15,240	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5635-45	5510-20
Previous	5610-20	5500-10
High/low		5520/5510
AM Official	5640-50	5515-25
Kerb close		5510-20
Open int.	17,182	
Total daily turnover	3,040	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1009-10	1034-35
Previous	1002.5-03.5	1026-28.5
High/low		1040/1032
AM Official	1009-10	1034.5-35.0
Kerb close		1036
Open int.	90,926	
Total daily turnover	14,777	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1587-88	1605-06
Previous	1589-90	1607-08
High/low		1615/1600
AM Official	1592-92.5	1610-11
Kerb close		1604-05
Open int.	172,229	
Total daily turnover	44,379	

■ LME AM Official £/$ rate: 1.6383
LME Closing £/$ rate: 1.6395

Spot: 1.6367 3 mths: 1.6284 6 mths: 1.6219 9 mths: 1.6138

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	71.95	-0.25	72.30	71.70	810	3,667
Aug	71.95	-0.25	72.30	71.95	151	2,574
Sep	72.20	-0.20	72.75	72.05	4,121	50,886
Oct	72.40	-0.20	72.70	72.35	13	1,893
Nov	72.70	-0.15	72.80	72.65	15	1,507
Dec	72.95	-0.10	73.35	72.90	484	14,154
Total					5,931	69,238

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	292.10-292.50		
Opening	292.40-292.70		
Morning fix	292.45	178.62	449.47
Afternoon fix	292.00	178.30	448.18
Day's High	292.40-292.70		
Day's Low	291.90-291.40		
Previous close	294.30-294.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.42	6 months	3.83
2 months	4.30	12 months	3.79
3 months	4.26		

Silver Fix	p/troy oz.	US cts equiv.
Spot	325.30	533.00

Silver Lending Rates

1 month	2.75	6 months	2.00
2 months	2.50	12 months	1.90
3 months	2.35		

	$ price	£ equiv.
Gold Coins		
Krugerrand	294-298	180-182
New Sovereign	69-73	42-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	293.3	-1.7	-	-	1	1
Aug	294.2	-1.7	297.0	292.2	20,300	76,879
Oct	296.5	-1.7	296.6	294.5	166	7,711
Dec	298.4	-1.7	300.9	296.5	627	22,606
Feb	300.1	-1.7	299.1	299.0	71	13,069
Apr	301.9	-1.7	-	-	48	8,341
Total					21,226	167,652

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	387.1	+1.1	385.5	378.0	280	746
Oct	382.1	+1.1	383.8	375.0	3,836	10,044
Jan	382.6	+1.1	381.5	381.5	243	487
Apr	382.6	+1.1	-	-	7	16
Total					4,366	11,381

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	289.20	-1.95	293.00	288.00	96	3,158
Dec	281.70	+0.55	-	-	-	1,016
Mar	276.70	+0.55	-	-	-	20
Total					96	4,194

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	532.7	-4.3	536.5	526.0	389	703
Sep	536.5	-4.3	544.5	528.0	7,910	40,746
Dec	540.7	-4.3	545.5	530.0	650	21,218
Jan	542.3	-4.3	-	-	-	26
Mar	543.1	-4.3	-	-	56	3,461
May	544.7	-4.3	-	-	1	1,416
Total					9,659	75,445

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	14.10	+0.48	14.16	13.58	50,333	104.5k
Sep	14.53	+0.39	14.55	14.09	30,519	79,797
Oct	14.83	+0.27	14.95	14.57	8,352	36,038
Nov	15.21	+0.28	15.21	15.12	9,095	25,759
Dec	15.50	+0.24	15.57	15.34	9,788	45,305
Jan	15.73	+0.21	15.77	15.60	2,629	27,579
Total					120,414	476,378

■ CRUDE OIL IPE ($/barrel)

	8pm price	Day's change	High	Low	Vol	Open int
Aug	13.16	+0.43	13.25	12.78	21,213	58,678
Sep	13.48	+0.39	13.53	13.15	19,849	57,031
Oct	13.82	+0.37	13.82	13.51	3,224	25,082
Nov	14.02	+0.15	14.02	13.83	710	13,462
Dec	14.32	+0.20	14.32	14.08	5,295	38,836
Jan	14.50	+0.06	14.56	14.33	1,535	18,747
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	39.35	+0.75	39.60	37.62	19,105	47,929
Sep	39.70	+0.79	39.86	38.97	6,722	31,189
Oct	41.15	+0.74	41.25	40.48	1,884	18,009
Nov	42.85	+0.74	42.90	42.30	1,265	14,513
Dec	44.00	+0.69	44.15	43.75	3,147	24,117
Jan	45.00	+0.59	45.35	44.50	2,166	21,229
Total						38,978

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	114.25	+1.25	115.00	111.25	14,210	20,891
Aug	116.75	+1.75	118.75	116.00	13,097	35,525
Sep	122.75	+1.50	122.75	120.25	6,236	14,266
Oct	126.50	+0.75	127.00	125.00	944	17,334
Nov	130.25	+0.75	130.25	129.00	724	10,854
Dec	133.25	+0.75	133.50	132.00	2,366	21,935
Total						31,228

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	9.650	+0.160	9.650	9.510	135	1,410
Sep	9.550	+0.170	9.550	9.550	100	1,885
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	2.440	+0.035	2.450	2.355	27,778	43,420
Sep	2.425	+0.029	2.450	2.380	6,894	25,789
Oct	2.455	+0.032	2.480	2.420	4,904	29,019
Nov	2.610	+0.034	2.625	2.580	1,514	17,148
Dec	2.765	+0.031	2.780	2.740	1,393	20,328
Jan	2.795	+0.031	2.810	2.765	1,457	21,578
Total					45,010	251,339

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	47.40	+0.46	47.60	46.65	17,608	43,216
Sep	47.75	+0.46	47.90	47.15	6,860	26,281
Oct	46.90	+0.46	46.90	46.60	1,804	8,269
Nov	46.60	+0.46	46.60	46.90	747	3,685
Dec	46.85	+0.30	46.90	46.70	1,245	6,138
Jan	47.35	+0.30	47.40	47.05	347	2,034
Total					28,863	92,003

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	74.75	-0.25	74.75	74.50	8	106
Sep	69.90	+0.15	70.00	69.75	14	153
Nov	71.90	+0.15	72.00	71.90	20	3,625
Jan	73.85	+0.25	73.85	73.75	23	1,341
Mar	75.75	+0.25	75.75	75.75	55	599
Total					159	6,285

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	273.00	-3.75	282.50	273.00	1,363	1,794
Sep	282.50	-2.75	292.00	282.00	6,957	45,088
Dec	298.25	-3.00	308.00	298.00	9,633	48,716
Mar	312.00	-2.25	320.50	311.50	1,641	15,112
May	319.00	-2.00	326.00	319.00	61	1,967
Jul	329.50	-2.00	338.00	329.00	65	3,557
Total					19,836	116,234

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	243.50	+2.00	253.00	241.00	5,714	11,701
Sep	249.00	+2.75	258.00	245.00	20,887	90,523
Dec	254.00	+3.00	263.00	249.25	46,761	148,944
Mar	262.50	+3.00	271.00	258.00	1,916	20,618
May	267.25	+2.50	276.00	263.25	780	4,763
Jul	272.00	+2.00	281.00	271.50	313	9,842
Total					77,026	290,812

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	68.90	-	-	-	-	24
Nov	71.50	-	-	-	-	1,018
Jan	73.50	-	-	-	-	243
Mar	75.50	-	-	-	-	49
May	77.00	-	-	-	-	22
Total					8	1,356

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	662.25	+6.75	673.00	656.00	6,076	6,198
Aug	647.00	+5.25	662.00	640.00	14,255	32,230
Sep	628.50	+5.00	647.00	624.00	3,106	13,226
Nov	618.50	+4.50	637.00	612.25	43,961	65,982
Jan	625.50	+3.25	644.00	624.00	809	7,324
Mar	633.00	+4.00	648.00	632.00	530	4,462
Total					68,287	135,882

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.99	+0.10	26.50	25.89	6,940	4,738
Aug	26.10	+0.09	26.70	25.92	12,361	26,500
Sep	26.32	+0.14	26.80	26.15	3,326	24,419
Oct	26.42	+0.11	26.93	26.25	690	11,621
Dec	26.64	+0.14	27.25	26.51	5,496	37,446
Jan	26.74	+0.13	27.16	26.73	133	4,504
Total					29,162	127,876

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	171.1	+1.6	176.0	169.8	3,305	9,866
Aug	167.1	+1.6	172.3	165.5	7,600	26,747
Sep	164.1	+1.9	170.0	163.9	3,262	16,504
Oct	162.5	+1.5	168.5	161.0	1,590	14,770
Dec	164.2	+1.7	170.0	162.9	10,975	45,846
Jan	165.0	+1.0	168.5	164.2	1,148	5,865
Total					28,336	129,118

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	90.0	-	-	-	-	5
Mar	110.0	-	-	-	-	1
Apr	156.5	-1.5	158.0	155.0	47	1,792
May	165.5	-1.5	-	-	-	39
Jun	173.5	-1.5	-	-	-	[illegible]
Total					47	1,782

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett	Day's change	High	Low	Vol	Open int
Jul	875	+20	875	870	33	498
Aug	875	+5	875	870	27	230
Sep	950	+5			-	459
Oct	1000	+5			-	284
Jan	1025	+5			-	200
Total					60	2,134

	Close	Prev
BFI	841	837

PULP AND PAPER

■ PULPEX OMLX (BSK 24 air dry ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	476.00	-	-	-	-	521
Dec	467.00	-	-	-	-	235
Total					0	831

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1071	+1	1077	1070	32	212
Sep	1099	+1	1105	1092	1,211	38,646
Dec	1126	+1	1132	1121	388	41,325
Mar	1146	+1	1153	1144	128	37,274
May	1164	+1	1165	1164	38	13,806
Jul	1180	+1	-	-	-	6,350
Total					1,850	150,718

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1570	-8	1581	1570	5	36
Sep	1604	-20	1635	1595	3,291	26,567
Dec	1646	-19	1675	1640	1,283	21,221
Mar	1681	-19	1707	1682	529	11,552
May	1704	-19	-	-	58	4,380
Jul	1726	-19	-	-	135	1,702
Total					5,195	73,407

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Jul 7		
Daily	1313.82	1316.40

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1578	+17	1574	1552	247	787
Sep	1606	+14	1609	1585	1,589	21,404
Nov	1609	+11	1601	1589	317	6,993
Jan	1611	+10	1605	1594	143	1,398
Mar	1614	+10	1600	1597	39	524
May	1617	+8	1600	1600	27	172
Total					2,362	31,296

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	114.90	+2.55	115.90	112.90	81	510
Sep	112.55	+2.10	114.80	110.50	3,062	20,098
Dec	113.30	+2.10	114.25	111.50	630	8,982
Mar	114.80	+1.50	115.50	113.30	163	3,927
May	115.85	+1.30	116.00	115.75	48	1,585
Jul	117.25	+1.30	118.00	117.00	41	973
Total					3,976	37,695

■ COFFEE (ICO) (US cents/pound)

Jul 7	Price	Prev. day
Comp. daily	97.35	97.70
15 day average	99.36	99.82

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	251.7	-1.9	253.2	251.1	4,675	10,656
Oct	244.2	-2.1	246.8	244.1	5,999	18,123
Dec	246.8	-1.5	247.3	246.2	732	4,173
Mar	250.1	-1.8	250.5	249.2	178	5,740
May	252.1	-1.5	252.3	252.0	26	501
Aug	254.8	-2.5	255.5	254.8	91	1,006
Total					11,210	40,425

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	9.25	-0.03	-	-	50	4,876
Oct	8.34	-0.08	8.36	8.26	7,064	92,273
Mar	8.89	-0.05	8.92	8.83	1,637	34,664
May	8.99	-0.05	9.00	8.95	25	9,346
Jul	9.07	-0.05	9.06	8.97	18	4,477
Oct	9.14	-0.03	9.14	9.10	105	3,044
Total					8,869	148,393

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	83.19	+0.39	83.30	82.70	54	620
Oct	80.50	+0.22	81.00	80.10	1,086	7,776
Dec	76.83	-0.43	77.35	76.75	5,308	60,754
Mar	75.45	-0.47	75.95	75.35	472	12,444
May	75.70	-0.20	75.90	75.70	194	6,754
Total					7,137	87,858

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	95.75	-3.10	100.00	95.75	379	233
Sep	98.75	-2.70	103.55	98.50	4,899	15,685
Nov	102.25	-4.80	107.00	102.35	313	5,071
Jan	105.10	-4.45	109.10	105.10	75	2,289
Mar	108.10	-4.15	111.60	108.50	1	1,242
May	111.55	-3.40	114.50	112.50	2	685
Total					5,668	25,432

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jul 8	Jul 7	month ago	year ago
1540.9	1535.1	1560.5	1900.8

■ CRB Futures (Base: 1967 = 100)

Jul 7	Jul 6	month ago	year ago
213.78	213.39	-	-

■ GSCI Spot (Base: 1970 = 100)

Jul 7	Jul 6	month ago	year ago
151.88	152.45	154.64	181.15

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,400	to	521,775
Aluminium alloy	-40	to	55,840
Copper	+175	to	248,150
Lead		to	103,725
Nickel	+138	to	69,816
Zinc	-900	to	390,375
Tin	-85	to	4,875

Nuts and seeds Prices from Kenkko London $ per mt. Iranian pistachios 28/30 raw (in shell naturally opened (round); crop 1997 at $3,350 FCA or CFR from Iran. Down due to devaluation of Iranian currency. Turkish hazelnuts 13/15 and 11/13, for new crop indication $4,250 CFR. Market unstable. Indian cashews crop 1998 CFR from top shippers, W320 at $5,600, W240 at $6,300. Market very strong due to end of local raw nut. US almonds new crop estimate at 560m pounds; standard 5 per cent crop 1997 at $4,250 FAS, crop 1998 at $4,500. Argentine peanuts 40/50 at $900 CIF. Chinese long snow white pumpkin seeds $2,350 CFR Europe.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Aug	64.350	+0.050	64.500	63.700	8,100	42,534
Oct	64.900	+0.525	64.950	63.950	3,523	28,155
Dec	65.975	+0.425	66.000	65.050	1,054	10,129
Feb	67.450	+0.350	67.500	66.700	172	3,845
Apr	68.675	+0.250	68.750	68.125	87	1,908
Jun	67.275	+0.075	67.300	67.100	2	563
Total					12,938	85,135

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	55.850	-1.525	57.100	55.775	1,581	3,285
Aug	54.750	-0.350	55.075	54.500	3,972	12,797
Oct	50.350	+0.250	50.400	49.625	1,371	6,110
Dec	49.800	+0.350	49.900	49.150	269	4,910
Feb	51.725	+0.450	51.800	51.050	61	1,326
Apr	51.000	+0.700	51.000	50.100	33	438
Total					7,310	29,166

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	60.500	-0.900	60.900	59.400	430	1,113
Aug	57.825	+0.200	57.850	55.750	1,587	3,894
Feb	51.400	-0.450	52.300	51.400	24	99
Total					2,041	5,108

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

	Aug	Nov	Aug	Nov
1250	44	82	11	34
1300	17	53	34	45
1350	4	32	71	73

■ COPPER (Grade A) LME

	Aug	Nov	Aug	Nov
1600	106	146	8	35
1650	41	87	41	74
1700	19	47	129	132

■ COFFEE LIFFE

	Sep	Nov	Sep	Nov
1550	99	118	31	59
1600	57	92	49	83
1650	36	72	78	113

■ COCOA LIFFE

	Sep	Dec	Sep	Dec
1075	41	76	17	27
1100	27	64	28	39
1125	18	52	44	51

■ BRENT CRUDE IPE

	Aug	Sep	Aug	Sep
1300	-	-	24	-
1350	13	61	-	-
1400	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$11.80-1.85z	+0.43
Brent Blend (dated)	$11.87-1.89	+0.235
Brent Blend (Aug)	$13.17-3.19	+0.285
W.T.I.	$14.81-4.92z	+0.26

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$169-171	+2
Gas Oil	$115-116	+3
Heavy Fuel Oil	$62-63	
Naphtha	$131-132	+2
Jet fuel	$127-128	+3
Diesel	$123-124	+2

■ NATURAL GAS (Pence/therm)

Bacton (Aug)	9.25-9.56	+0.15

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

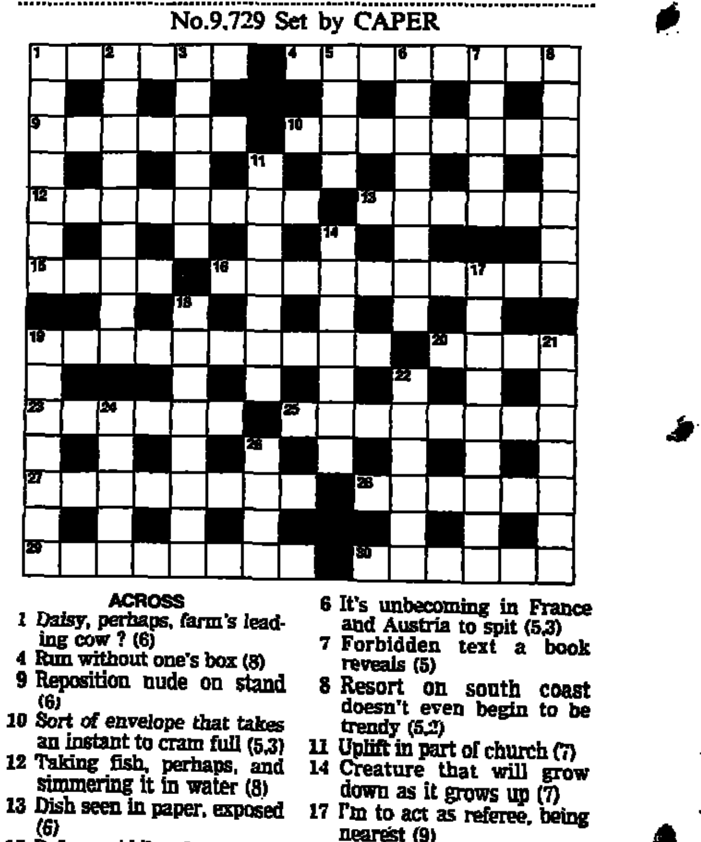
Gold (per troy oz)♣	$292.35	-2.20
Silver (per troy oz)♣	533.00c	-1.50
Platinum (per troy oz.)	$374.00	-4.00
Palladium (per troy oz.)	$287.00	-0.50
Copper	78.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	23.60r	-0.15
Tin (New York)	267.5	-1.0
Cattle (live weight)	90.50p	+0.02*
Sheep (live weight)	112.19p	-2.39*
Pigs (live weight)	60.98	-0.14*
Lon. day sugar (raw)	$236.20	-4.10
Lon. day sugar (wte)	$257.00	-0.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Aug)♥	47.50p	
Rubber (Sep)♥	47.50p	
Rubber (KL RSS No1)	285.50m	-0.50
Coconut Oil (Phil)§	662.5y	-12.5
Palm Oil (Malay)§	612.50	-2.5
Copra (Phil)§	405.0y	
Soyabeans (US)	170.0y	+4.0
Cotton Outlook 'A' index	70.45	+0.10
Wooltops (64s Super)	322p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jul. ♣ Aug. § CIF Rotterdam. ♥ London Physical. § CIF Rotterdam. * Change on week. Based on 1,392 head of cattle sold.

JOTTER PAD

CROSSWORD

No.9,729 Set by CAPER



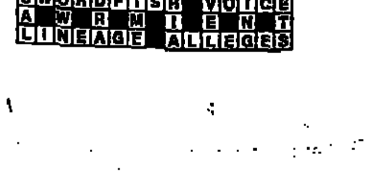
ACROSS

1 *Daisy*, perhaps, farm's leading cow ? (6)
4 Run without one's box (8)
9 Reposition nude on stand (6)
10 *Sort of envelope that takes* an instant to cram full (5,3)
12 Taking fish, perhaps, and simmering it in water (8)
13 Dish seen in paper, exposed (6)
15 Before middle of mazurka, show disapproval of ballet dancer's skirt (4)
16 Resistance to work situation *(10)*
19 Capsize sailors in 15 river and get let off (4,6)
20 Filth makes childrens' guts turn (4)
23 Nasty about every song (6)
25 Cockney's tip finished fiancé (8)
27 Sedate awfully mad clown (4,4)
28 Smooth gelato requires just a little stirring (6)
29 The west reissue D-Notice about start of conflict (8)
30 Peaceful romantic song wanting plug (6)

DOWN

1 Caper goes into convenient seedy cinema (4,3)
2 Eg Chips or El Greco? (3,6)
3 Strangely they are mostly blue (6)
5 Song with a backing melody (4)
6 It's unbecoming in France and Austria to spit (5,3)
7 Forbidden text a book reveals (5)
8 Resort on south coast doesn't even begin to be trendy (5,2)
11 Uplift in part of church (7)
14 Creature that will grow down as it grows up (7)
17 I'm to act as referee, being nearest (9)
18 Banked foreign currency notes under stone (8)
19 Leaves to take taxi back to business (7)
21 Little wriggler's not much on rod (7)
22 Go back and, it's reported, sow again (6)
24 When being awkward I call purple this (5)
26 Graceful creature seen swimming with arched neck at the front (4)

Solution 9,728



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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA
(FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA
(REGULATED)(**)

GUERNSEY
(FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY
(REGULATED)(**)

IRELAND
(FSA RECOGNISED)

IRELAND
(REGULATED)(**)

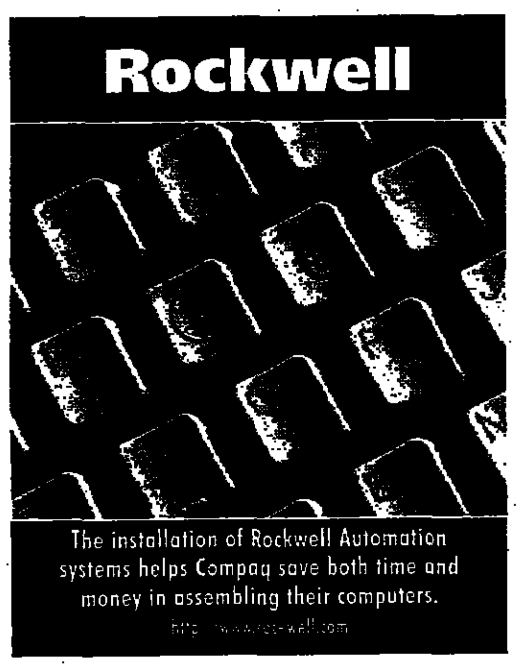
ISLE OF MAN
(FSA RECOGNISED)

ISLE OF MAN
(REGULATED)(**)

JERSEY
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)



Russia palladium exports 'to fall'

CROSSWORD

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

Frontrunner I - Contd.

GT Global

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Daiwa Japan Small Equity Fd (x)

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Friends Provident International

Generali International Limited

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873-4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official List.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£10¾	+⅛	*£19¾	£9½	-	5.3	7.0
Barlow R	§	£3¼	+⅛	£6⅞	£2¾	-	3.8	10.1
Gold Flds Prop R		94½	-3	187	89½	-	6.8	12.2
SA Breweries R		£12½	-⅞	£23¼	£11½	-	2.5	19.8
Standard Bank R		£2⅝	-⅛	£3⅞	£2¼	-	1.5	-
Tiger Oats	†	558xd	-	1081	505	-	2.8	12.7
Tongaat-Hulett R		485½	+28½	780	413	-	2.9	13.3

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		£5780xd	-	£61289	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or Reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend.
xc ex scrip issue.
xr ex rights.
xa ex all.
xcd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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FT Company Focus / Focus Plus

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FT Cityline

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An International service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

City is confident ahead of crucial rate decision

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's equity market had a more confident feel for much of yesterday's session, *despite the imminence of the* Bank of England's decision on interest rates, announced at noon today.

The FTSE 100 index managed to hold above the 6,000 level throughout the morning but lost its way in the early afternoon before rallying to post a sixth straight winning performance.

Its late uptick came as Wall Street began to work higher, pushing through the 9,100 level on the Dow Jones Industrial Average. The Dow was up more than 50 points shortly after London closed.

The impressive closing display was not confined to the *front-line stocks; the second-*liners, represented by the FTSE 250 index, were equally buoyant, with that index also extending its sequence of consecutive gains to a sixth day.

The 250 gained 18.7 to 5,622.0, just short of a session high of 5,624.4 and ever closer to its record closing high of 5,966.6.

The underperformance of the smaller stocks, however, continued into a third day. The FTSE SmallCap index settled a further 5.4 off at 2,589.5.

Some marketmakers reserved judgment on the *day's performance.* "On the face of it, this was a pretty good display, but we still have to negotiate the monetary policy committee's decision, which could turn the market upside down. The downgrade stories won't go away, to say nothing of the potential for more problems across *Asia* and possibly Russia," said one trader.

But he conceded that there was more cash coming into the stock market from pension funds and insurance companies, mostly via programme trades, *which take* some time to unwind in current market conditions.

Sentiment was given an additional lift from better-than-expected earnings and trading updates issued by two of the market's leading consumer-related stocks, Dixons, the UK's biggest retailer of electrical goods, and Scottish & Newcastle, the brewing, retail and leisure company.

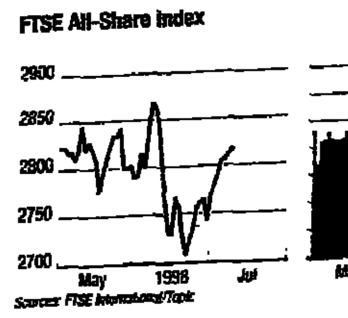
Worries about another nudge higher in UK interest rates have been behind relative underperformance by consumer stocks in recent sessions.

*There was also a resur*gence of takeover speculation. One of the driving forces behind the market in recent months, the bid buzz has not been heard for some weeks, but it revived yesterday in the drugs sector, where SmithKline Beecham raced higher on speculation of a possible merger with Merck of the US. Some aggressive trading in Smith*Kline stock made the shares* the heaviest traded in the FTSE 100 list of constituents.

The interest rate rise talk *dampened down yesterday,* with some dealers adopting the view that the market *had already priced in a rate* rise and would therefore extend its upside performance if there was no move to lift rates. But after six straight gains, other traders said London would need a big influx of cash to drive it forward again.

Turnover in the equity market was a *reasonable* 825.1m shares at the 6pm cut-off, with FTSE 100 issues *making up 51 per cent of the* total.

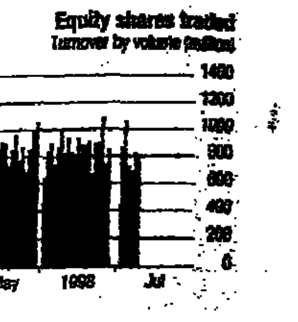
FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	6009.6	+6.2	FT 30	3925.3	-7.5
FTSE 250	5622.0	+18.7	FTSE Non-Fins p/e	23.57	23.57
FTSE 350	2892.8	+4.2	FTSE 100 Fut Sep	6052.0	-23.0
FTSE All-Share	2816.40	+3.53	*10 yr Gilt yield*	5.85	5.91
FTSE All-Share yield	2.79	2.79	Long gilt/equity yld ratio	2.06	2.05

Best performing sectors

1. Distributors +1.6
2. Tobacco +1.5
3. Life Assurance +1.5
4. Media +1.5
5. Pharmaceuticals +1.4

Worst performing sectors

1. Food Producers -1.3
2. Healthcare -1.1
3. Retailers Food -1.0
4. Insurance -0.7
5. Leisure & Hotels -0.7

Buyers return to Beecham

COMPANIES REPORT

By Peter John and Joel Kibazo

Talk of a tie-up with Merck saw SmithKline Beecham rise 23p to 790p. But the reality appeared to be the staunching of an 18-month blood-letting in the US.

*US investors have tradi*tionally been high rollers in the company since the £9bn merger between SmithKline and Beecham in 1989. But from holding 35 per cent of the company at the beginning of the year, they have jobbed the stake down to 25 per cent.

UK institutional clients have used the transatlantic selling as an opportunity to recover an appropriate weighting in the stock.

But analysts believe that US funds might be more relaxed about the company, particularly in the light of reports on Avandia, the company's new diabetes treatment. Merrill Lynch says: "If the profile remains as good as indicated, this could be a *$2bn product.*"

Signs of American buying appeared late on Wednesday when the American Depositary Receipts moved forward $1 1/16 to $63½ in New York. The UK stock followed suit yesterday with a gain of 17½ to 784½p. The interest was highlighted by the turnover of 19m shares, the heaviest in the overall UK market.

Dealers were sceptical about the Merck rumours. SmithKline Beecham *declined to comment on the* speculation, but pointed out that Jan Leschly, chief executive, said on Tuesday that a merger with any other company was "very, very unlikely". The past six *months have seen the failure* of merger talks with American Home Products and Glaxo Wellcome.

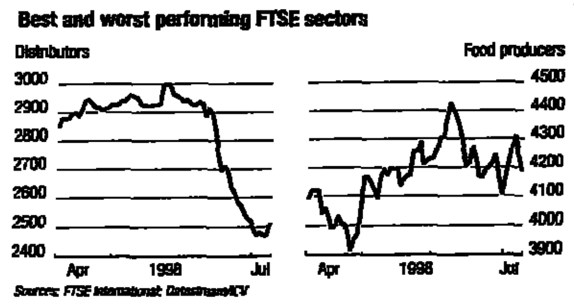
There were vague hints in the market suggesting hotels group **Millennium & Cop**thorne *could be about to* raise money in the market to fund an acquisition. One dealer noted: "Holders of this stock that don't usually sell the shares are doing so, which is quite unusual." The *shares fell 14 to 513½p.*

In the rest of the sector, turnover in Ladbroke Group was just shy of 3m as the shares hardened a penny to 320p.

Charterhouse Tilney *favours the stock and in a* note to clients said: "We believe that Ladbroke has no *case to answer in the pro*posed merger with Coral. Market share does not confer market power in the off-*track betting industry; nei*ther do barriers to entry or economies of scale exist. The Corals deal will be earnings enhancing and Ladbroke shares look inexpensive on *only 19 times earnings.*"

Brewing and leisure group Scottish & Newcastle hovered around the top of the FTSE 100 best performers for most of the session as the market appreciated the group's *full-year figures* and news that it plans to seek shareholder authority to buy back its own shares.

Best and worst performing FTSE sectors



Sources: FTSE International; Datastream/ICV

S & N ahead

Scottish & Newcastle reported earlier a rise in pretax profits to £422m from £372m. They were just in line with market expectations and analysts were encouraged by the company's relatively upbeat trading statement, in which it said it saw "no significant *impact" from the slowdown* in consumer spending.

Both HSBC and Dresdner Kleinwort Benson are said to be buyers of the stock. The latter was reported to have upgraded current-year prof*its estimate* by £11m to £451m.

Life assurance stocks performed strongly, shrugging off a two-way pull in the sector.

Merrill Lynch has an *"overweight" stance, argu*ing that the settling of the pensions mis-selling debacle "appears to be being successfully dealt with by most of the quoted companies".

It believes that Legal & General, the main company not to publish the size of its provision, is "likely to be able to put it against the with-profit estate".

Nevertheless, Goldman Sachs has reiterated its "underweight" stance. The broker says valuations remain too high in spite of the sector's recent underperformance. **Prudential** shares moved forward 28 to 829½p and Legal gained 11 to 680p while **Britannic** added 12½ at £11.82½.

Hope in some quarters *that a Brussels ruling to* clear the planned alliance between British Airways and American Airlines would be more favourable were dented yesterday, reversing an initial advance in the UK carrier's shares.

Having risen to 710p in early trading, the shares retreated to close 5 off at 698p, after news of the conditional clearance in which the Commission ruled the two carriers will have to give up 267 landing slots to win final approval for the deal.

*One specialist on the sec*tor said: "This ruling was not a surprise because of the many leaks in advance, but there were those hoping the airlines may only have to give up *240 or so slots and* not 267."

But specialists suggested the 267 figure to be a ceiling. One said: "Closer examination of the details will show that this is a good deal for all sides so I don't expect the shares to languish for long." Turnover in the stock had reached 10m by the close.

Cable & Wireless gained 21 to 835p after Morgan Stanley Dean Witter reiterated its "strong buy" recommendation and placed a near-term share price target of *935p on the stock.*

Dealers said the rally in the Hong Kong market, where C&W owns a 54 per cent stake in Hongkong Telecom, had provided additional support for the shares.

BSkyB best player

BSkyB, recommended by Teather & Greenwood as a key defensive play in the media sector, was the best Footsie performer with a rise of 28 to 480p.

Banks were supported ahead of the upcoming dividend season with Bank of Scotland, favoured by Williams de Broe, up 20 to 680p.

BP dropped 6 to 882p as Deutsche Morgan Grenfell moved its stance on the *stock from "neutral" to* "underweight". The broker believes BP's current share price does not reflect the current low oil price environment, which it expects to persist for some time.

DMG also highlighted the potential for deteriorating operating profits and the lack of potential for further cost-cutting at the oil giant, largely because much restructuring has already been put in place.

Mirror Group, the subject of heady takeover specula*tion recently, dipped 2½ to* 225½p after buying the Derry Journal for £18.25m.

FT 30 INDEX

	Jul 8	Jul 7	Jul 6	Jul 3	Jul 2	Yr ago	*High	*Low
FT 30	3925.3	3932.8	3896.4	3896.9	3872.8	3030.1	3920.3	3906.4
Ord. div. yield	2.78	2.83	2.85	2.85	2.87	3.63	4.22	2.79
P/E ratio net	24.12	24.30	24.13	24.12	23.96	16.27	25.41	15.80
P/E ratio nil	*24.02*	*24.08*	*33.92*	*23.91*	*23.75*	*18.08*	*25.19*	*15.71*

FT 30 since compilation: high 3933.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3932.8	3931.7	3933.4	3933.5	3931.0	3921.9	3910.3	3913.0	3913.6	3940.7	3906.4

STOCK MARKET TRADING DATA

	Jul 8	Jul 7	Jul 6	Jul 3	Jul 2	Yr ago
SEAQ bargains	61,796	66,789	58,849	53,000	63,953	48,488
Equity turnover (£m)†	-	2876.7	2244.4	2924.8	3228.0	2181.1
Equity bargains†	-	53,034	48,905	45,205	47,472	50,600
Shares traded (m)†	-	702.2	640.3	801.2	761.3	632.8
Total market bargains‡	-	66,981	58,628	55,202	64,067	-
Total turnover (£m)‡	-	4182.2	3810.7	4135.1	4725.6	-
Total shrs traded (m)‡	-	996.4	918.1	1043.5	1082.6	-
Tradepoint turnover (£m)	27.7	29.2	19.2	29.9	15.1	1.5
Tradepoint shrs traded	9.7	9.7	5.9	10.0	6.8	0.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	660	Total Highs	73	Total contracts	28,285
Total Falls	827	Total Lows	64	Calls	13,468
Same	1,500			Puts	14,817

Jul 8 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	6070.0	6042.0	-26.0	6090.0	6030.0	17403	168083
Dec	-	6139.0	-27.0	-	-	0	1349
Mar	-	6215.0	-27.0	-	-	0	630

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5690.0	5690.0	-	5690.0	5690.0	15	5671

■ FTSE 100 INDEX OPTION (LIFFE) (*5998) £10 per full index point

	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P
Jul	215	16	173	24½	134½	36	99	51½	70	73½	46½	102½	28	137½	15	173½
Aug	312	97	276	110	242½	127	212½	147	182½	167½	153	190	131	218½	108½	248
Sep	382½	147	347	161	315½	180	284	199	252½	218	221	237½	195	264½	172	297
Oct	*445½*	*178½*	*418½*	*194½*	*375½*	*210½*	*343½*	*230*	*318*	*253*	*288½*	*276½*	*261*	*300*	*233½*	*324½*
Dec†	569	222½			504½	260			436½	299			371½	341½		

Calls 2,736 Puts 503

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P
Jul	192	21½	151½	31	115	44	83	62	56½	85½	37	115½	21½	150	11½	190½
Aug	292	103	258½	118½	225	135	196	154½	166½	175½	140½	199	117½	225½	97	255
Sep	359	145	324½	160	293½	178½	263½	197½	235	219	208½	241	182½	264	159½	290½
Dec	535½	232			471½	264½			408½	299½			353½	340		
Mar†	664½	294½			601	325½			538½	359½			482½	397½		

Calls 3,109 Puts 5,679 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	8.77	67½	65½	AdVal	66½		-	-	-	17.6
§100	F.P.	82.6	103½	100	Advance Dev Mkts	103½	-¼	-	-	-	-
§100	F.P.	39.0	108½	103½	†Anglo Siam Gl	107½		-	-	-	-
§	F.P.	4.38	26½	12	Biocrypts Wts	19½		-	-	-	-
§150	F.P.	103.1	164½	154½	Brit Regnl Air	159½	-4	L1.48	2.9	1.2	57.5
§	F.P.	19.0	11½	11½	†CCM Distribution	11½		-	-	-	-
§100	F.P.	11.5	82	55	†City Gourmets	55		-	-	-	-
-	F.P.	24.8	101½	97½	Dresdner RCM Endow	99		-	-	-	-
-	F.P.	24.4	100	90½	Dresdner RCM Inc	95½	-6½	-	-	-	-
-	F.P.	23.4	101	99½	Dresdner RCM Zr	101	+¼	-	-	-	-
§	F.P.	238.8	2212½	1887½	ECsoft	2200	-67½	-	-	-	-
-	F.P.	145.1	231½	196	Game	196½		L2.64	3.0	1.7	24.8
-	F.P.	36.9	147	128	HW	135		L2.2	0.7	2.0	9.4
§125	F.P.	28.3	140	130	†Interior Servs	135		L3.15	3.0	2.9	14.2
§300	F.P.	21.3	255	225	†JSB Software Tech	225½		-	-	-	-
§-	F.P.	0.30	30	7½	†London Town Wts	30	+10	-	-	-	-
§	F.P.	11.3	13½	11½	†Murray Fred	11½		-	-	-	-
§-	F.P.	28.9	204½	162½	†Policy Master	204½		-	-	-	44.7
-	F.P.	54.5	157½	135½	Quadrica	140	+½	-	-	-	21.5
§-	F.P.	29.3	97½	82½	†Sports & Outdoor	95	+2½	W-	-	-	36.1
-	F.P.	12.5	128½	117½	†Touchstone Grp	120½		L1.0	6.9	1.0	19.5
*	F.P.	14.1	102½	92½	†Tricorder Tech	92½	-1	-	-	-	-
-	F.P.	-	35½	33½	Williams Pl B	34		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jul 7	% chg on day	Jul 6	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	1042.27	+1.9	1022.71	1270.14	2.26	-	1535.45	891.23
■ *Regional Indices*								
Africa (10)	1143.41	-1.3	1158.47	1330.00	4.23	43.11	1525.29	914.31
Australasia (7)	1197.91	+1.3	1182.34	1414.42	2.77	7.80	1509.85	933.63
North America (10)	988.91	+3.6	954.41	1344.23	1.24	42.41	1574.15	864.86

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 8	Day's chge%	Jul 7	Jul 6	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6009.6	+0.1	6003.4	5990.3	4762.4	2.73	2.30	2.03	22.56	81.57	2631.14
FTSE 250	5622.0	+0.3	5603.3	5588.5	4395.5	2.96	2.50	1.97	21.45	79.47	2415.15
FTSE 250 ex Inv Tr	5663.7	+0.4	5642.7	5632.2	4390.8	3.05	2.58	2.03	20.21	82.27	2442.50
FTSE 350	2892.8	+0.1	2888.6	2882.0	2286.0	2.77	2.34	2.02	22.35	39.53	2588.27
FTSE 350 ex Inv Tr	2897.1	+0.2	2892.7	2888.5	2288.1	2.79	2.35	2.03	22.11	39.78	1329.54
FTSE 350 Higher Yield	2789.3	----	2788.7	2777.0	2238.1	3.79	3.21	1.92	17.19	51.05	2134.49
FTSE 350 Lower Yield	2997.5	+0.2	2990.2	2988.1	2349.8	1.95	1.64	2.17	29.37	30.25	2178.49
FTSE SmallCap	2589.55	-0.2	2594.92	2598.64	2212.97	3.07	2.49	1.88	21.72	34.35	2256.79
FTSE SmallCap ex Inv Tr	2573.75	-0.3	2580.89	2588.66	2182.06	3.29	2.67	1.87	19.27	36.05	2266.24
FTSE All-Share	2816.40	+0.1	2812.87	2807.13	2236.64	2.79	2.35	2.01	22.31	38.39	2557.45
FTSE All-Share ex Inv Tr	*2823.14*	*+0.1*	*2819.49*	*2814.20*	*2236.26*	*2.81*	*2.37*	*2.03*	*21.95*	*38.78*	*1318.92*

■ *FTSE* Actuaries Industry Sectors

	Jul 8	Day's chge%	Jul 7	Jul 6	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4506.23	-0.5	4528.39	4564.47	4576.26	3.37	2.92	1.72	21.54	74.43	2073.10
12 Extractive Industries(6)	2820.11	+0.8	2798.82	2793.84	4222.83	4.95	4.54	2.06	12.29	76.82	890.08
15 Oil, Integrated(4)	5090.54	-0.6	5123.65	5174.94	4784.96	3.31	2.83	1.64	22.99	79.87	2408.75
16 Oil Exploration & Prod(12)	3022.38	-0.5	3036.93	3032.94	3783.60	1.88	1.56	1.98	33.53	33.41	1878.59
20 GEN INDUSTRIALS(217)	2156.79	-0.1	2159.50	2165.59	1835.50	3.36	2.96	2.29	16.28	34.65	1269.65
21 Construction(38)	1495.20	+0.6	1485.88	1508.58	1336.37	3.30	2.68	2.70	14.04	21.62	1335.52
22 Building Matls & Merchs(26)	1747.86	-0.6	1758.05	1765.59	1746.59	4.21	3.67	2.04	14.59	39.26	958.60
23 Chemicals(24)	2683.95	+0.8	2662.16	2654.07	2324.14	3.51	3.24	1.79	19.97	45.47	1375.77
24 Diversified Industrials(7)	1378.03	----	1377.45	1371.25	1294.68	4.79	3.90	2.11	14.09	26.36	850.38
25 Electronic & Elect Equip(29)	2895.51	-0.6	2913.98	2884.71	1982.80	2.61	2.12	1.87	25.61	22.67	1596.26
26 Engineering(64)	2819.22	-0.2	2824.15	2841.74	2389.98	3.37	2.99	2.48	14.95	49.23	1825.20
27 Engineering, Vehicles(10)	4042.01	-0.5	4063.07	4082.17	2715.66	2.20	2.02	3.35	16.92	43.88	2228.47
28 Paper, Pckg & Printing(22)	2210.77	----	2211.38	2232.70	1887.55	4.04	3.82	2.43	12.72	41.23	1000.06
30 CONSUMER GOODS(91)	6025.93	+0.7	5982.94	5999.80	4687.80	2.47	2.16	1.79	28.21	77.17	2385.76
32 Alcoholic Beverages(6)	4109.99	+1.1	4064.24	3949.83	3428.62	3.30	2.79	1.60	23.64	67.92	1610.58
33 Food Producers(25)	4190.65	-1.3	4246.04	4308.45	3005.83	2.50	2.12	2.07	24.18	56.91	2035.46
34 Household Goods & Texts(24)	3239.21	-0.6	3257.59	3250.01	3087.25	3.36	3.00	2.05	18.14	53.57	1368.02
36 Health Care(13)	*2467.81*	-1.1	*2494.86*	*2487.16*	2234.43	2.03	*1.87*	2.29	26.99	30.39	1581.78
37 Pharmaceuticals(20)	10141.86	+1.4	10000.00	10066.74	7691.68	1.81	1.60	1.70	40.60	95.15	3827.49
38 Tobacco(3)	5418.38	+1.5	5336.29	5352.23	4409.43	4.75	4.20	1.75	15.01	130.10	1575.99
40 SERVICES(279)	3743.87	+0.1	3738.59	3712.23	2812.17	2.30	1.88	2.00	27.23	35.19	2061.00
41 Distributors(28)	*2509.11*	+1.6	*2469.50*	*2471.46*	*2836.99*	*3.89*	*3.21*	*1.87*	*16.29*	*46.87*	989.36
42 Leisure & Hotels(27)	3799.83	-0.7	3825.62	3839.12	3127.78	2.53	2.06	2.56	19.31	60.11	2156.77
43 Media(41)	4841.32	+1.5	4770.90	4705.14	3907.87	2.14	1.80	2.27	25.71	53.35	1835.46
44 Retailers, Food(13)	3196.48	-1.0	3228.13	3251.85	2328.95	2.82	2.26	2.11	21.00	45.04	2183.47
45 Retailers, General(48)	2272.85	+0.4	2263.23	2287.57	2081.32	3.37	2.72	2.00	18.50	37.47	1390.09
46 Telecommunications(10)	4892.93	-0.6	4923.25	4826.23	2454.91	1.79	1.48	1.52	48.17	7.79	2381.24
47 Breweries, Pubs & Rest.(24)	4173.68	----	4171.66	4267.86	3186.45	2.94	2.36	2.38	17.97	48.05	2133.78
48 Support Services(64)	5466.26	+0.7	5427.78	5333.11	3019.60	1.08	0.91	2.59	44.59	29.11	3603.42
49 Transport(24)	4051.17	+0.6	4028.62	3965.38	2847.22	2.62	2.14	1.51	31.48	48.09	1810.09
60 UTILITIES(22)	4068.50	-0.2	4075.43	3971.68	3044.04	3.96	3.25	1.73	18.24	83.94	1958.01
62 Electricity(8)	4512.60	-0.5	4536.27	4402.80	3327.41	4.48	3.57	1.90	14.74	94.34	2657.10
64 Gas Distribution(2)	3227.58	-0.1	3230.00	3101.02	2057.38	2.02	1.61	‡	‡	26.03	1865.45
68 Water(12)	3481.70	+0.3	3469.85	3452.44	2798.12	4.90	4.20	2.31	11.05	112.14	2179.04
69 NON-FINANCIALS(631)	*2894.36*	*+0.2*	2889.91	2881.90	2249.78	2.74	2.32	1.94	23.57	37.18	2360.58
70 FINANCIALS(108)	5247.15	+0.1	5244.45	5249.56	4403.91	3.04	2.51	2.29	17.99	87.11	2430.00
71 Banks, Retail(12)	7534.15	----	7533.01	7580.83	6789.96	3.14	2.51	2.33	17.13	126.41	2640.93
73 Insurance(16)	2514.50	-0.7	2533.20	2531.78	1720.87	3.32	3.13	2.21	17.04	47.84	2079.67
74 Life Assurance(8)	6938.14	+1.5	6836.86	6795.18	4794.24	2.71	2.33	2.60	17.78	108.92	3100.13
77 Other Financial(26)	4741.50	-0.6	4769.79	4725.19	3249.36	2.32	1.90	2.22	24.28	66.67	2895.05
79 Property(46)	2100.76	-0.5	2112.35	2117.34	1991.33	3.10	2.58	1.60	25.13	32.91	1384.69
80 INVESTMENT TRUSTS(114)	3978.14	----	3978.88	3948.67	3429.18	2.04	1.66	1.18	51.73	40.07	1451.97
89 FTSE All-Share(853)	2816.40	+0.1	2812.87	2807.13	2236.64	2.79	2.35	2.01	22.31	38.39	2557.45
105 FTSE All-Share ex Inv Tr(739)	2823.14	+0.1	2819.49	2814.20	2236.26	2.81	2.37	2.03	21.95	38.78	1318.92
Information Technology	1862.32	+1.5	1835.48	1796.64	-	0.46	0.37	3.76	71.87	3.79	1867.29
FTSE Fledgling	*1417.07*	*-0.3*	*1420.95*	*1426.49*	*1253.17*	*3.12*	*2.53*	1.40	28.68	19.19	1573.80
FTSE Fledgling ex Inv Tr	1439.30	-0.4	1444.58	1452.78	1253.70	3.45	2.80	1.46	24.80	21.32	1605.13
FTSE AIM	1089.1	-0.5	1094.3	1095.0	1054.2	1.17	0.93	0.15	80.00†	6.11	1008.33

■ **Hourly movements**

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	6011.2	6012.4	6015.5	6017.8	6009.0	5993.6	5991.8	5990.0	6027.1	5977.4
FTSE 250	-	5619.6	5615.4	5619.5	5622.5	5624.1	5621.0	5621.5	5620.3	5624.4	5607.6
FTSE 350	-	2893.2	2893.3	2894.8	2896.1	2892.7	2886.4	2885.7	2884.9	2899.3	2879.9
FTSE SmallCap	2586.37	2585.74	2583.57	2582.65	2591.80	2581.33	2590.84	2590.12	2589.80	2586.37	2580.42
FTSE All-Share	-	2817.17	2817.09	2818.49	2819.55	2816.47	2810.60	2809.96	2809.19	2822.79	2804.63

Time of FTSE 100 Day's high: 9:03:30 Day's low 15:37:30 FTSE 100 1998 High: 6105.8 (08/04/98) Low: 5088.7 (12/01/98)
Time of FTSE All-Share Day's high: 9:07:00 Day's low 15:37:00 FTSE All-Share 1998 High: 2869.10 (08/06/98) Low: 2389.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Courtaulds (23) & (FTSE 250); Geest (FTSE SmallCap). Insert: Geest (FTSE 250).

FTSE INTERNATIONAL

TRADING VOLUME

■ **Major Stocks yesterday.**

	Vol 000's	Closing price	Day's change
3i	2,400	604	-3
ABBEYNAT	1,600	645½	-16½
ASDA Group	7,300	203½	-5½
Abbey National	2,300	1035	-22
Alliance & Leicester	423	790½	-7½
Allied Domecq	873	580	-2
Assoc. Brit. Foods	2,200	600	-8
BAA	8,200	684	+11
BAT Inds	16,800	649	+13
BOC	786	835½	-9½
BG	4,400	375½	-1½
BP	6,600	882	-6
BSkyB	7,100	480	+28
BT	14,900	805	
BTR	5,700	172½	+½
Bank of Scotland	1,900	680	+20
Barclays	2,900	1735	+8
Bass	1,700	1098	-18
Billiton	11,200	140	+1½
Blue Circle	2,900	343	+3
Boots	2,200	1004	+7
Brit. Aerospace	6,100	491	+7
British Airways	10,800	698	-5
British Energy	2,500	512	-12
British Land	2,300	617½	+2
British Steel	10,800	135½	-1½
CGU	2,100	1139	-7
Cable & Wireless	7,300	835	+21
Cadbury Schweppes	1,400	862	-14
Carlton Comms.	1,700	574	+11½
Centrica	5,700	104	-1
Compass	2,000	622½	-18½
Daily Mail & General†	0	2825	+12½
Diageo	3,500	750	+10
EMAP†	117	1224	+19
Elo	1,800	517	+1
Enterprise Oil	866	555½	-4½
Foreign & Col. I.T.	387	205½	-1½
General Electric	6,500	555	-3
Glaxo Wellcome	4,400	1838	+32
Granada	2,600	1096	-8
GUS	2,000	773	+1½
GRE	7,500	370½	-1
GKN	1,600	848	+2
HSBC (75p shs)	2,200	1569	-24
HSBC (HK$10)	2,400	1497	+17
Halifax	3,600	760½	-4½
Hays	2,200	1000	-6
ICI	2,100	1006	+27
Kingfisher	7,100	971	-5
Ladbroke	2,900	320	+1
Land Securities	3,800	920	-7
Legal & General	2,700	680	+11
Lloyds TSB	5,700	862	-1
LASMO	729	239½	-1½
Lucasvarity	5,400	237½	-4½
Marks & Spencer	4,000	537	-½
Mepc	235	3635	+110
NatWest Bank	3,000	1098	-19
National Grid	5,300	425	+½
National Power	3,700	556	-½
Northern Rock†	447	511	-4½
Norwich Union	6,600	431½	-½
Nycomed Amersham	1,900	439	-14
Orange	7,200	706½	-31½
Pearson	2,000	1113	+7
P & O	3,400	959	+9
PowerGen	1,600	803	-8
Prudential	2,600	829½	+28
RMC	143	980	-63
Railtrack	6,500	1579	+2
Rank Group	4,200	315	-10
Reckitt & Colman	422	1180	-8
Reed Intl	10,500	588	+13
Rentokil Initial	7,200	454½	+1½
Reuters	5,000	685	+11
Rio Tinto	2,800	775	-6
Rolls-Royce	4,000	257½	-5½
Royal & Sun Alliance	6,300	619	-13
Royal Bank Scotland	1,100	1010	+3
Safeway	1,300	398	+½
Sainsbury	2,200	548½	-½
Schroders	149	1823	-18
Schroders N/V	11	1424	+6
Scottish & Newcastle	8,700	818	+36
Scottish Power	4,800	622	+18
Securicor†	7,800	536	-25
Sears†	1,300	825	+38
Severn Trent	778	1030	+13
Shell Transport	13,300	418	-3½
Siebe	4,000	1181	-16
SmithKline Beecham	19,300	784½	+17½
Smiths Inds	1,700	849½	-7½
Stagecoach	383	1360	-2
Standard Chartered	1,820	680	-2
Sun Life & Provincial	265	585	-9
TI Group†	759	487	+10
Tesco	16,900	194	-3
Thames Water	647	1086	+16
Tomkins	1,100	347	
Unilever	10,400	667	-16
Utd. News & Media	1,200	910	-11
United Utilities	1,300	886½	-3½
Vodafone	6,900	816	-18½
WPP	768	420½	+8½
Whitbread	3,000	947	+17
Wolseley	504	393	-4
Woolwich	5,900	323	-3½
Zeneca	1,900	2832	-19

Based on trading volume for the FTSE 100 constituent companies and reserves yesterday until 4.30pm. † Indicates a FTSE 100 index reserve. All trades are rounded. Source: Bagel, part of FT Information.

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 8 / Sch)

BELGIUM/LUXEMBOURG (Jul 8 / Frs.)

CZECH REP (Jul 8 / Koruna)

DENMARK (Jul 8 / Kr)

FINLAND (Jul 8 / Mks)

FRANCE (Jul 8 / Frs.)

GERMANY (Jul 8 / Dm.)

GREECE (Jul 8 / Drachma)

ITALY (Jul 8 / Lira)

NETHERLANDS (Jul 8 / Fls.)

NORWAY (Jul 8 / Kroner)

POLAND (Jul 8 / Zloty)

PORTUGAL (Jul 8 / Escudo)

SPAIN (Jul 8 / Pts.)

SWEDEN (Jul 8 / Kronor)

SWITZERLAND (Jul 8 / Frs.)

TURKEY (Jul 8 / Tk. Lira)

PACIFIC

JAPAN (Jul 8 / Yen)

HONG KONG (Jul 8 / H.K.$)

INDONESIA (Jul 8 / Rupiah)

MALAYSIA (Jul 8 / MYR)

NEW ZEALAND (Jul 8 / NZ $)

SINGAPORE (Jul 8 / S$)

AUSTRALIA (Jul 8 / Aust$)

SOUTH KOREA (Jul 8 / Won)

TAIWAN (Jul 8 / TW $)

THAILAND (Jul 8 / Baht)

AFRICA

SOUTH AFRICA (Jul 8 / Rand)

AMERICAS

CANADA

TORONTO (Jul 8 / Can $)
4 pm close

MONTREAL (Jul 8 / Can $)
4 pm close

MEXICO (Jul 8 / Peso)
12.30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JULY 7 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JULY 6 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	197.98	1.5	178.93	173.16	186.52	212.15	0.8	3.74	195.09	175.65	172.58	183.37	210.48	240.60	173.27	237.85
Austria (23)	235.62	0.3	212.95	206.08	221.99	221.83	0.5	1.53	234.98	211.57	207.88	220.87	220.71	253.73	181.60	202.96
Belgium (22)	379.59	0.1	343.08	331.99	357.62	348.89	0.3	1.98	379.24	341.46	335.49	356.47	348.75	379.59	234.33	261.11
Brazil (26)	222.63	1.9	201.20	194.71	209.74	474.82	1.9	2.15	218.54	196.77	193.33	205.42	465.87	322.44	184.94	317.30
Canada (120)	235.10	0.2	212.48	205.62	221.50	250.57	0.3	1.62	234.51	211.15	207.46	220.43	249.85	248.78	199.10	213.52
Denmark (34)	508.70	0.0	459.76	444.92	479.27	477.80	0.2	1.35	508.78	458.09	450.09	478.23	476.73	521.81	375.32	398.69
Finland (28)	467.28	0.1	422.32	408.69	440.24	540.23	0.3	1.70	466.82	420.32	412.97	438.79	538.36	467.28	267.59	297.71
France (79)	335.06	0.4	302.82	293.05	315.67	319.34	0.6	1.85	333.75	300.50	295.25	313.71	317.34	335.75	217.48	237.57
Germany (58)	308.15	0.3	278.50	269.51	290.32	290.32	0.8	1.14	307.12	276.52	271.69	288.68	288.68	308.15	204.89	226.42
Greece (37)	299.18	2.4	270.39	261.67	281.86	649.89	2.6	1.45	292.15	263.04	258.45	274.61	633.35	307.94	280.24	–
Hong Kong, China (66)	245.68	-0.8	222.04	214.88	231.47	244.38	-0.8	6.41	247.69	223.01	219.11	232.81	246.36	580.03	218.78	520.23
Indonesia (27)	32.77	3.1	29.62	28.66	30.88	296.54	3.8	2.27	31.78	28.61	28.11	29.87	285.59	254.90	23.58	253.86
Ireland (16)	544.29	0.8	491.92	476.05	512.80	551.98	1.1	1.78	539.94	486.14	477.55	507.52	546.25	560.44	359.60	385.99
Italy (54)	169.61	0.8	153.29	148.34	159.80	226.19	1.1	1.31	168.18	151.42	148.78	158.08	223.71	177.15	95.46	99.63
Japan (480)	95.04	1.7	85.89	83.12	89.54	83.12	0.5	0.95	93.47	84.15	82.68	87.85	82.68	138.03	83.04	136.77
Malaysia (106)	120.61	-0.2	109.01	105.49	113.63	192.90	-1.0	3.27	120.80	108.77	106.87	113.55	194.82	504.86	113.56	503.49
Mexico (29)	1433.52	2.5	1295.59	1253.79	1350.57	14033.16	2.3	1.94	1399.19	1259.79	1237.78	1315.17	13715.45	1901.98	1278.19	1899.75
Netherlands (20)	528.23	-0.3	477.41	462.00	497.67	492.55	-0.1	1.90	529.78	477.00	468.66	497.97	492.83	532.74	385.56	425.66
New Zealand (14)	63.15	0.1	57.07	55.23	59.50	64.20	-1.2	4.74	63.08	56.80	55.81	59.30	64.99	95.87	56.33	95.38
Norway (38)	305.79	0.0	276.36	267.45	288.09	319.42	0.1	1.96	305.76	275.30	270.49	287.40	319.08	374.64	281.62	326.60
Philippines (22)	78.84	0.2	71.25	68.96	74.28	162.27	-0.1	1.05	78.68	70.82	69.58	73.94	162.48	164.99	57.54	164.99
Portugal (18)	280.59	2.8	253.59	245.41	264.35	356.34	3.0	1.01	273.03	245.83	241.54	256.64	345.82	299.39	261.25	–
Singapore (42)	153.80	0.8	139.00	134.52	144.90	119.80	-0.8	2.53	152.63	137.43	135.03	143.47	120.56	401.75	133.81	398.00
South Africa (40)	233.72	6.9	211.24	204.42	220.20	312.13	0.9	2.88	218.64	196.86	193.42	205.52	309.20	361.55	213.50	354.08
Spain (31)	399.88	-0.1	361.40	349.74	376.74	485.92	0.1	1.66	400.34	360.46	354.16	376.30	485.48	400.34	236.28	276.05
Sweden (49)	602.75	0.5	544.75	527.18	567.87	720.47	0.7	1.82	599.64	539.90	530.47	563.64	715.21	615.21	439.98	504.77
Switzerland (28)	420.14	-0.2	379.71	367.46	395.83	397.11	0.0	1.05	421.20	379.23	372.61	395.91	397.28	421.20	285.85	327.72
Thailand (38)	13.42	1.0	12.13	11.74	12.65	21.47	0.5	12.40	13.29	11.97	11.76	12.49	21.36	65.78	11.66	63.02
United Kingdom (204)	385.78	-0.2	348.68	337.42	363.46	348.68	0.2	2.86	386.47	347.97	341.89	363.27	347.97	401.84	303.41	317.40
USA (630)	472.61	-0.1	427.14	413.35	445.26	472.61	-0.1	1.37	473.27	426.12	418.67	444.85	473.27	473.27	358.31	369.21
Americas (805)	425.58	-0.1	384.63	372.22	400.95	360.08	-0.1	1.39	425.95	383.52	376.82	400.38	360.39	425.95	326.79	338.13
Europe (739)	369.19	0.1	333.67	322.90	347.83	353.57	0.4	1.93	368.79	332.06	326.25	346.65	352.21	369.19	265.25	282.11
Eurobloc (349)	107.45	0.3	109.13	111.74	109.44	109.46	0.5	1.56	107.13	108.39	112.68	108.86	108.87	107.45	99.54	–
Nordic (149)	528.70	0.3	477.83	462.42	498.11	549.96	0.5	1.62	527.03	474.52	466.23	495.39	547.03	536.56	388.51	427.68
Pacific Basin (867)	100.77	1.4	91.08	88.14	94.94	88.62	0.4	1.68	99.35	89.45	87.89	93.39	88.26	155.40	88.45	154.89
Euro-Pacific (1606)	212.64	0.5	192.18	185.98	200.33	188.59	0.4	1.86	211.65	190.56	187.23	198.94	187.88	216.04	172.03	208.00
North America (750)	457.16	-0.1	413.18	399.85	430.71	457.57	-0.1	1.38	457.73	412.13	404.93	430.24	458.19	457.73	349.06	359.56
Europe Ex. UK (535)	348.02	0.2	314.53	304.38	327.88	344.82	0.5	1.49	347.17	312.59	307.12	326.33	343.20	348.02	236.79	258.23
Europe Ex. Eurobloc (390)	100.16	-0.1	101.73	104.16	102.07	102.17	0.2	2.31	100.25	101.44	105.45	101.87	101.94	100.97	94.53	–
Europe Ex. UK Ex. Eurobloc (186)	104.27	0.1	105.91	108.44	106.20	107.29	0.3	1.27	104.20	105.44	109.61	105.88	106.97	104.27	95.88	–
Pacific Ex. Japan (387)	160.68	0.4	145.13	140.44	151.28	167.35	-0.1	4.64	159.91	143.98	141.46	150.31	167.48	318.59	142.99	311.97
World Ex. Eurobloc (2102)	100.69	0.2	91.00	88.06	94.86	101.92	0.1	1.61	100.52	90.50	88.92	94.48	101.87	100.69	93.25	–
World Ex. US (1821)	214.78	0.6	194.11	187.85	202.35	195.00	0.4	1.86	213.61	192.33	188.97	200.78	194.18	220.18	175.30	211.77
World Ex. UK (2247)	289.58	0.2	261.71	253.27	272.82	267.78	0.1	1.46	288.91	260.12	255.58	271.56	267.44	289.58	234.24	258.54
World Ex. Japan (1971)	398.49	0.0	360.15	348.53	375.43	394.54	0.1	1.67	398.37	358.68	352.41	374.45	394.29	398.49	309.33	325.84
The World Index (2451)	297.78	0.2	269.13	260.44	280.55	275.17	0.1	1.80	297.22	267.61	262.93	279.37	274.81	297.78	241.30	261.79

Emerging markets: IFC investable indices

Dollar terms

Jul 7 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	984.62	+2.9	-11.8
Brazil	440.12	+1.9	-8.8
Chile	499.61	+0.6	-22.3
Colombia[1]	531.12	-1.3	-35.7
Mexico	816.45	+2.1	-21.8
Peru[2]	200.78	+1.8	-9.3
Venezuela[3]	446.05	-0.9	-51.3
East Asia			
China[4]	34.67	-0.2	-37.3
Korea[5]	26.43	+2.7	+10.0
Philippines	110.12	+0.2	-2.8
Taiwan, China[6]	120.38	-0.8	-14.7
South Asia			
India[7]	87.41	+0.8	-19.1
Indonesia[8]	15.12	+3.0	-55.1
Malaysia	88.78	-0.1	-26.7
Pakistan[9]	99.43		-60.0
Sri Lanka[10]	83.75		-28.0
Thailand	41.94	+0.9	-10.8
Europe/Mideast/Africa			
Czech Rep	56.04	-3.5	+2.4
Egypt	74.77	-0.9	-19.8
Greece	542.80	+2.4	+67.5
Hungary[11]	314.88	-0.3	+0.1
Israel	124.36	-1.3	+2.2
Jordan	218.32	-0.8	+3.8
Morocco	161.69	-0.2	+24.1
Poland[12]	757.26	+0.4	+28.9
Portugal	311.07	+2.6	+47.4
Russia	51.88	-3.4	-65.1
S Africa[13]	162.57	+8.5	-9.6
Slovakia	57.07		-42.4
Turkey[14]	291.81	-1.0	-6.5
Zimbabwe[15]	244.88	-0.4	-2.7
Regions			
Composite	212.49	+1.9	-13.6
Latin America	557.58	+1.8	-17.7
Asia	85.91	+0.4	-20.3
EMEA	141.88	+2.9	-3.9
Europe	185.54	+0.5	-1.6
Eastn Europe	86.07	-1.5	-38.7
ME & Africa	67.01	+5.5	-8.3

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991. (2)Dec 31 1992. (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991, (10) Dec 31 1992; (11)Dec 31 1993, (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest values were unavailable for this edition.

NEW YORK STOCK EXCHANGE PRICES

3:45 pm July 8

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial. u-new yearly low. P/E price-earnings ratio. vol- volume. n-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ♣ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jul 7	Jul 6	Jul 3	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9085.04	9091.77	(c)	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	105.17	105.27	(c)	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3587.91	3555.88	(c)	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	292.73	295.40	(c)	295.40 (6/7)	262.86 (9/1)	295.40 (6/7/98)	16.53 (8/7/32)

DJ Ind. Day's high 9150.61 (9091.77) Low 9067.11 (9000.59) (Theoretical) Day's high 9209.65 (9137.11) Low 9001.84 (8995.97) (Actual)

Standard and Poors	Jul 7	Jul 6	Jul 3	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1154.66	1157.33	(c)	1157.31 (6/7)	927.69 (9/1)	1157.31 (6/7/98)	4.40 (1/6/32)
Industrials‡	1341.11	1345.47	(c)	1345.47 (6/7)	1077.40 (9/1)	1345.47 (6/7/98)	3.52 (30/6/32)
Financial‡	142.83	142.43	(c)	142.83 (7/7)	116.65 (9/1)	142.83 (7/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	589.78	590.82	(c)	590.82 (6/7)	487.47 (9/1)	590.82 (6/7/98)	4.64 (25/4/42)
Amex Comp	727.96	725.12	(c)	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1908.11	1909.47	(c)	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	459.04	459.97	(c)	481.41 (21/4)	410.89 (12/1)	481.41 (21/4/98)	123.39 (7/12/83)

RATIOS

	Jun 26	Jun 19	Jun 12	Year ago
Dow Jones Ind. Div. Yield	1.60	1.64	1.61	1.67
	Jul 1	Jun 24	Jun 17	Year ago
S & P Ind. Div. yield	1.27	1.28	1.28	1.62
S & P Ind. P/E ratio	32.08	31.73	30.97	24.35

US DATA

MARKET ACTIVITY

Volume (million)	Jul 7	Jul 6	Jul 2
NYSE	630.240	514.750	514.330
Amex	26.221	21.895	21.414
NASDAQ	813.475	686.008	798.980

NYSE	Jul 7	Jul 6	Jul 2
Issues Traded	3,509	3,538	3,497
Rises	1,536	1,725	1,526
Falls	1,476	1,287	1,406
Unchanged	497	526	565
New Highs	175	162	132
New Lows	77	55	55

NYSE TRADING ACTIVITY

Volume : 630,240,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AT&T	7,018,400	58	+⅜
Compaq	6,320,100	29¾	+¾
Zapata	6,183,800	17⅛	−3⅞
Travlr	5,056,800	64⅜	+¾
Cendnt	4,616,800	22⅛	+⅛
HomeDep	4,244,700	48⅛	
Chaseli	4,200,500	74¾	−2⅛
PhMorr	4,183,300	38⅛	−⅛
AmOnLine	3,802,000	106⅞	−4⅛
TenetHlth	3,509,300	27⅛	−1½

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Advaltic	18	+1½	+9.1
KLM R Dtch	45¾	+3⅝	+8.6
FSTPLUS	40¾	+2⅞	+7.1
Valhi Inc	11⅞	+⅞	+8.2
Downs			
Zapata	17⅛	−3⅞	−18.3
Veeanir	18¼	−2⅝	−12.6
GabNrtH	42	−4⅛	−8.8
SinCot	14⅛	−1⅛	−6.9

NASDAQ TRADING ACTIVITY

Volume :813,475,000

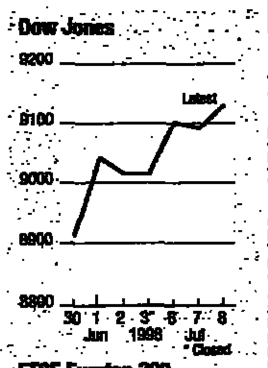
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Egghead	26,178,500	15½	+⅜
Intel	13,538,000	75⅝	+1⅝
Yahoo	12,384,000	191	−6⅛
Netscp	11,487,500	36	−3
WrldCm	9,937,600	50⅝	+⅛
Lycos	9,652,900	85	−14⅛
ParamT	8,967,900	15⅝	−⅜
DellCmp	8,717,300	91	−⅜
Vivus	8,237,200	10	+3⅛
Amz.com	7,874,900	121⅝	−17⅝

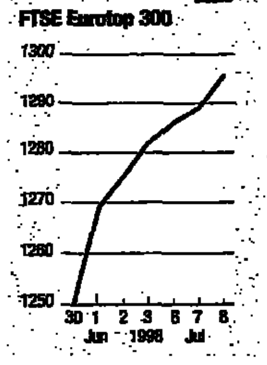
BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
NovatMed	27⅝	+6⅛	+29.2
Tel-Save	17½	+2⅞	+18.1
PrtfRecvry	32⅝	+4⅛	+15.2
MicroWrhse	18⅞	+2⅜	+14.3
Downs			
Hrbingr	14⅝	−6⅛	−29.3
Lycos	85	−14⅛	−14.8
Vantive	13⅝	−2⅜	−14.5
Good Guys	10⅝	−1⅝	−13.9

Dow Jones



FTSE Eurotop 300



JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	1166.90	1165.80	−0.30	1168.30	1164.60	73,040	350,306
Dec	1181.50	1179.80	-	1182.00	1175.50	259	13,772
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Sep	16590.0	16510.0	+0.030	16640.0	16490.0	23,247	202,743
Dec	16500.0	16500.0	+0.110	16550.0	16440.0	330	13,298

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	4324.5	4348.0	+3.5	4369.0	4314.5	31,073	160,618
Aug	4358.0	4380.0	+3.5	4358.0	4352.5	230	5,236
DAX							
Sep	5996.0	6069.0	+53.5	6073.0	5988.5	18,861	73,518
Dec	6066.0	6121.5	+49.0	6117.0	6066.0	16	2,050

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	806.00	812.75	+4.75	813.00	805.50	10,682	112,473
Aug	811.50	813.50	+2.50	813.50	810.50	2,138	14,244
SOFFEX							
Jul	8188.0	8240.0	+70.0	8240.0	8145.0	4,170	24,701
Aug	8201.1	8257.0	+56.0	8230.0	8201.1	228	628

WORLD MARKETS AT A GLANCE

Country	Index	Jul 8	Jul 7	Jul 6	1998 High	1998 Low	Yield	P/E
Hungary	Bux	7785.98	7800.09	7860.54	8018.36 23/4	7049.35 28/5	na	na

Shares edged lower with investors focused on developments in Russia.

Country	Index	Jul 8	Jul 7	Jul 6	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	3245.88	3195.94	3176.31	4280.96 21/4	3037.34 23/6		
	Crisil 500	622.43	614.61	608.17	815.82 21/4	578.17 23/6	na	na

Reports that government was planning to introduce share buyback triggered speculative bidding.

Country	Index	Jul 8	Jul 7	Jul 6	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	5770.00	5697.55	5540.72	8176.89 22/4	3870.27 2/1	1.72	42.2
	PSI 20	13189.48	13007.91	12623.13	14292.88 22/4	9031.84 2/1		

Banking sector drove market higher as expectations grew for strong first-half results from several stocks.

Country	Index	Jul 8	Jul 7	Jul 6	1998 High	1998 Low	Yield	P/E
Russia	RTS	134.81	138.47	145.01	411.81 5/1	134.81 8/7	na	na

Shares weak after finance ministry accepted yields over 100 per cent at treasury bill auction.

THE NASDAQ STOCK MARKET

3:45 pm July 8

AMEX PRICES

4 pm close July 8

EASDAQ

STOCK MARKETS

Hashimoto disappoints expectant traders

WORLD OVERVIEW

If world financial markets harboured hopes of a decisive statement on fiscal policy from the Japanese prime minister yesterday, they were swiftly dashed when Ryutaro Hashimoto spoke after Tokyo closed, *writes Michael Morgan.*

The Nikkei 225 was higher as investors eagerly awaited word of tax cuts after Sunday's election. The firmer yen also lifted Hong Kong by more than 2 per cent. But in the event, the markets were disappointed when Mr Hashimoto failed to announce sweeping and permanent tax cuts.

The yen remained under pressure during the European trading day. However, a firm start on Wall Street proved a more persuasive influence, and further records were set in Frankfurt, Paris, Amsterdam, Zurich and Stockholm.

A higher Ericsson in Stockholm and a weaker Nokia in Helsinki made only modest responses to Motorola's better-than-expected second-quarter figures.

BT Alex Brown says analysts are forecasting profits growth from US corporations of just 2.5 per cent for the second quarter, but the broker adds this is likely to be surpassed. However, expectations of 7 per cent earnings growth for the year may prove unrealistic, with zero growth more likely.

"How long will investors be duped into the seasonal scam of analysts downgrading before reports, and the market then rising as the outturns exceed the newly reduced expectations?" ask James Montier and Edmond Warner, global strategists. "We remain underweight US equities until earnings forecasts display more realism."

Moscow remained under pressure, awaiting news of the International Monetary Fund credit package. John-Paul Smith at Morgan Stanley has been bearish on the Russian market for the last year, but he is beginning to see a glimmer of hope.

"The market is better value than it was and the authorities are more cognisant of the structural problems than they were," he points out.

Mr Smith is disinclined to dismiss the possibility of, perhaps, a 40 per cent increase in the market over the next few weeks, on a partial recovery in confidence. Unfortunately, he says, the upside is almost matched by what would happen if the Duma was obstructive and the international community turned its back on Russia.

"In the event of a devaluation, this is not a market that many investors would want to own. My head tells me this remains a possibility, but my heart tells me at these prices courageous investment managers may want a short-term bet."

Dow ignores weakness in internet issues

AMERICAS

Blue-chip stocks nudged higher in morning trading on Wall Street, while internet stocks continued to drop, *writes William Lewis in New York.*

The Dow Jones Industrial Average moved up 49.82 to 9,134.86 and the broader Standard & Poor's 500 index gained 6.73 to 1,161.39.

The Nasdaq composite index improved 12.23 to 1,920.34 and the Russell 2000 index of small-company stocks fell 0.83 to 458.21.

Investors continued to sell internet stocks, which have seen substantial gains in recent weeks. Amazon.com, the internet book store, fell $15¾ or 12.9 per cent to $106⅞ on concerns that the company was overvalued given its share price rise of 164 per cent since June 8.

Yahoo!, the internet search engine company, fell again ahead of the release of its quarterly earnings, expected later in the day. Its shares lost $8⅞ or 4.4 per cent to $182⅝ following a fall of $8¼ or 4.1 per cent on Tuesday.

Travelers Group and Citicorp, the financial services groups that announced a mega-merger earlier this year, saw their prices rise following the release of a report by Merrill Lynch, which raised its near-term rating on Citicorp from accumulate to buy and reiterated its long term buy rating on the stock.

Judah Kraushaar, Merrill's analyst, also maintained the broker's near- and long-term buy rating on Travelers. In morning trading, Citicorp's shares leapt $10 1/16 or 6.29 per cent to $170½ and Travelers rose $4 1/16 to $68¾.

Elsewhere Motorola fell following its warning after the markets closed on Tuesday that its third-quarter operating results would be similar to the second quarter.

The telecoms and semiconductor group said that conditions in the semiconductor industry worldwide, as well as general business conditions in Asia, had weakened further still in the second quarter. In morning trading, its share price dropped $1⅞ to $53¼.

Allergan, the Texas-based home pharmaceutical company, saw its share price advance $1½ to $48 11/16. It said second-quarter revenue was stronger than expected, mainly because of growth in sales of Alphagan and Botox drugs.

TORONTO ignored the solid opening on Wall Street and trickled lower, depressed by dull golds and banks. The 300 composite index had fallen by midday.

Golds ran into profit-taking after Tuesday's 2.7 per cent rally for the sector, with leaders streaming lower from the opening bell.

Barrick Gold lost 70 cents at C$27.40 and Placer Dome came off 50 cents at C$16.75.

Banks were also in the doldrums, taking little heart from positive interest rate talk as the money markets opened steadier. Royal Bank of Canada gave up 30 cents to C$90.30 and Toronto-Dominion Bank shed 40 cents at C$67.00.

Geac Computer fell with a resounding thud, tumbling C$5.70 to C$44.30 following a final-quarter results statement. Philip Services was actively traded, slipping 55 cents to C$5.05.

Bid talk lifts São Paulo

SAO PAULO continued to move higher, taking its cue from Wall Street and a rush of bid rumours following the $2.1bn takeover of Brazil's fourth biggest privately owned bank by Dutch giant ABN Amro.

The Bovespa index was 110 or 1.1 per cent ahead at 10,315 at midsession in the wake of impressive gains for a number of blue chips.

Petrobrás added 2.9 per cent at R$251.99 and Telebrás gained 1.3 per cent at R$133.80.

MEXICO CITY also gained ground, rising 74.51 or 1.7 per cent to 4,585.12 on the IPC index at midsession.

Dealers said the market was mostly driven by carried-over buy orders from Tuesday's busy session. Telmex ended the morning 20 centavos higher at 22.10 pesos.

CARACAS rallied. Having drifted lower for three session to touch a 22-month low on Tuesday, the IBC index was up 36.71 at 4,762.10 at midsession.

Dax high follows London deal

EUROPE

German equities celebrated the forthcoming trading links between the London and FRANKFURT stock markets by closing above the 6,000 level for the first time.

The Xetra Dax ended a busy electronic session with a gain of 43.01 to 6,018.89 after reaching a session best of 6,025. The benchmark is now 47 per cent above its January lows.

Tuesday's broker upgrade kept Lufthansa on the upside, lifting the shares a further DM1.35 to DM56.15 in solid volumes. There were good gains, too, among selected financials.

Allianz mooted the idea of a New York listing and gained DM12.50 to DM629.50 and Munich Re added DM28 at DM895. Deutsche Bank supplied the main contrast, losing DM1.45 to DM147.20.

The latest sign of empire-building from Volkswagen – plans for a Polish car engine plant – sent the shares up DM4 to DM197. Elsewhere in the motor sector, Daimler-Benz gained DM1.40 to DM182.

Retailer Karstadt stood out among the day's handful of fallers, slipping DM14.20 to DM920.

PARIS nudged to another record high, although volumes remained severely depleted ahead of France's World Cup semi-final match against Croatia. The CAC 40 index added 6.82 at 4,339.91 in turnover of FFr11.4bn.

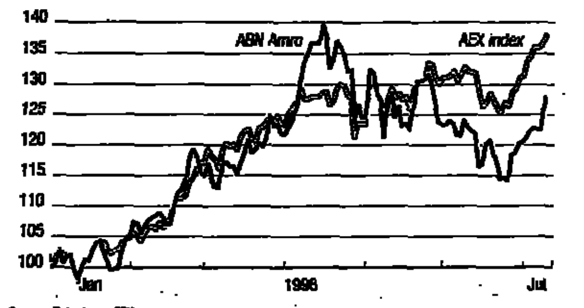
Motors continued to drive higher with Renault up FFr10.90 at FFr393 and Peugeot up FFr23 at FFr1,402 in spite of a note from Lehman Brothers that highlighted strong recent outperformance and asked whether it was time to sell the sector.

The brokers feel that with Renault beating the benchmark index by 58 per cent so far this year and Peugeot by 30 per cent, valuations are stretched. The recent flow of upbeat news could soon go into reverse, says Lehman.

Oils were dull, not helped by soft international prices and negative broker comment. Total gave up FFr9 at FFr776 and Elf Aquitaine FFr12 at FFr859.

ABN Amro

Share price and index (rebased)



Source: Datastream/ICV

STMicroelectronics added FFr9.70 to FFr420 ahead of a post-trading hours news conference. Bouygues Offshore jumped FFr13.70 or 4.8 per cent to FFr300.20 on news of a FFr2.9bn contract to fit out an Angolan oil field.

AMSTERDAM moved to another record high on the AEX index, which rose 14.09 to 1,259.82 mostly on the back of a strong run for financials.

ABN Amro jumped 4.5 per cent in heavy volume of 10.2m shares traded after the bank announced the acquisition of Brazil's fourth-largest privately owned bank for $2.1bn. ABN rose Fl 2.20 to Fl 50.60. Aegon gained Fl 6.90 to Fl 194.40.

KLM continued to push higher following Tuesday's share buyback news. The shares put on Fl 2.50 to Fl 93.90 for a two-day gain of almost 11 per cent.

Telecoms leader KPN rose Fl 4 to Fl 84.40. On the downside, Royal Dutch shed Fl 1.60 at Fl 109.40 and Unilever, hit by a broker downgrade on Tuesday, lost Fl 3.20 to Fl 162.20.

ZURICH resumed its rally after Tuesday's pause and the SMI index climbed 67.2 to close at an all-time high of 8,227.2.

Early advances by the pharmaceutical giants set the advance in motion, before the financial sector joined in.

Roche certificates rose SFr265 to SFr15,645 on derivatives-linked buying and speculation about a change to the group's capital structure. Novartis gained SFr8 to SFr2,573, while Clariant, the speciality chemicals group, added SFr47 to SFr1,027. Ems put on SFr60 at SFr9,100 as investors geared up for an indication of the company's performance so far this year from tomorrow's annual news conference.

Among the financials, UBS gained SFr12 to SFr615, while a SFr83 rise in Swiss Re to SFr3,933 came after a big foreign sell order had been completed.

MADRID was helped by late buying as sentiment was supported by strength on Wall Street. The general index rose 6.64 or 0.7 per cent to 932.88.

Leading blue chips were higher, with Endesa gaining Pta60 to Pta3,520.

Banks were actively traded, with Santander up Pta35 to Pta4,100 and Argentaria adding Pta10 to Pta3,735.

Puleva, the milk producer, rose Pta255 or 5.5 per cent to Pta4,895 after announcing a possible share split.

MILAN gained ground cheered by strength in other European bourses. The Mibtel rose 279 or 1 per cent to 24,739.

Olivetti was the most active issue of the day, rising L33 to L3,091 followed by Montedison gained L84 to L2,448.

Gemina, the holding company, rallied on speculation of a takeover spree by the group. The shares closed up L121 or more than 8 per cent to L1,622.

Alitalia gained L87 to L6,522. Iri, the state holding company that owns 53 per cent of Alitalia, said the national flag carrier was in good shape and was ready for a further sell-off before the end of the year.

BCI gained L23 to L12,362. Goldman Sachs yesterday raised its 1998 earnings per share estimate by 52 per cent.

STOCKHOLM closed at a fresh record high amid thin trading. The general index rose 15.71 to 3,824.56.

Telecoms group Ericsson rose SKr4.5 to SKr252 after stronger-than-expected Motorola second-quarter results. In Helsinki, Nokia gained FM1.90 to FM435.40.

Written and edited by Michael Morgan, Jeffrey Brown, Emiko Terazono and Paul Gregan.

Profit-takers go for gold

SOUTH AFRICA

Shares in Johannesburg pushed higher with gains for industrials and financials offsetting another round of profit-taking in golds.

The all share index added 22.6 to 7,175.5, underpinned by advances of 16.8 to 8,459.6 and 87.7 to 11,848.3 for industrials and financials.

Golds, up more than 40 per cent in the six days to Monday, fell 61.2 or 5.7 per cent to 1,019.7 as the rand continued a steady recovery in the foreign exchanges.

EMERGING MARKET FOCUS

Abiola's death renews tension

Political tension in Nigeria following Tuesday's death of Chief Mashood Abiola, the businessman who claimed to be the country's rightfully elected president, may undermine a recovery in the country's financial markets.

Dealers reported little activity yesterday at the Lagos stock exchange as a combination of uncertainity over the country's future direction and the overnight riots in which 10 people were killed kept brokers away from trading.

Only 17 traders were said to have turned up for business against a daily average of more than 60. The index closed unchanged.

The renewed tension threatens the recovery in the equity market after an 18-month slide. That retreat was mainly attributed to political uncertainty ahead of presidential elections planned for next month.

Analysts also pointed to the higher rate of return in the debt markets, where commercial paper yields more than 20 per cent, while poor results from consumer companies such as Lever Brothers, the Nigerian subsidiary of Anglo-Dutch group Unilever, were also blamed for the sell off in equities. In April, the company reported a loss of N92m ($1.02m) for the year to December 1997 against profits of N1.9bn the previous year.

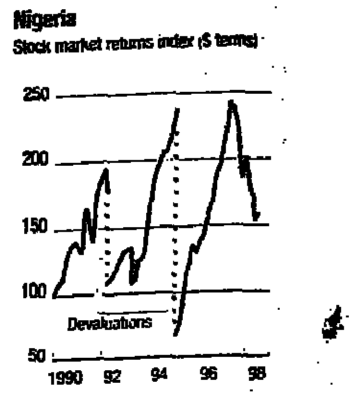
A shortage of refined oil hit manufacturing and was said to be a factor in the market's retreat. In the past six months the index fell 20 per cent.

Last month's death of Sani Abacha, Nigeria's military leader, halted the decline of the index and brought renewed buying from local and international investors.

In June the index rose 3.7 per cent in dollar terms. Some of the advance was attributed to the renewed strength of the local currency, the naira. In the last month, it has risen from N88 to the dollar to about N85.50 on the official inter-bank rate, while the street rate has improved from N92 to the dollar to about N86.50.

Nigeria

Stock market returns index ($ terms)



Source: Standard Bank

Analysts attributed some of the currency's recovery to a reduced appetite for dollars. They also suggested the improvement was a sign of growing confidence in the new leadership.

One analyst said: "Things are fragile and can unravel at any time. Confidence has been growing, but whether it can survive the death of Abiola remains to be seen."

Philip Ihenacho, director of Afrinvest, the London-based investment banking firm, is more optimistic that market sentiment will continue to improve. He said: "I am cautiously optimistic. We are advising our clients not to be worried by the events of the last two days and instead to look closely at what the government has to say in the next few days."

But there are those who continue to be sceptical. Miles Morland of Blakeney Management, an emerging markets investment firm, said: "The problems of dealing in Nigeria make investing in that market problematic in so many ways. This is a pity because now would be a good time to invest because of the low valuations of the stocks."

Joel Kibazo

Tokyo rises on tax cut hopes

ASIA PACIFIC

Investor hopes for news of permanent tax cuts and further fiscal reform pushed TOKYO higher ahead of a speech by prime minister Ryutaro Hashimoto, *writes Alexandra Harney.*

The Nikkei 225 average gained 0.7 per cent, closing up 114.69 at 16,530.97 after trading between 16,497.30 and 16,635.86. The Topix index of all first-section stocks improved 3.59 to 1,268.40. Decliners outpaced advancers 653 to 510.

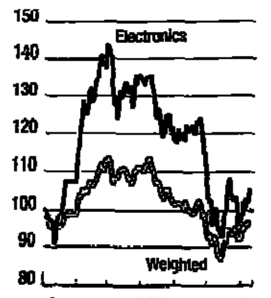
Volume stayed strong at 500m shares, with the heaviest activity taking place in the steel and banking sectors. Nippon Steel topped the activity charts, gaining Y7 to Y265. Kawasaki Steel improved Y6 to Y269, and Sumitomo Metals was up Y4 to Y226. Iron and steel shares increased 1.4 per cent overall.

The Long-Term Credit Bank, the troubled bank that recently began merger talks with Sumitomo Trust, fell Y4 to Y64.

Real estate shares gained 4.2 per cent on hopes that government fiscal plans would lead to new construction orders, analysts said. Sumitomo Realty and Development climbed Y25 to Y664.

Taiwan Electronics Sector

Indices (rebased)



Source: Datastream/ICV

Nissan Diesel, the truck manufacturer that jumped sharply on Tuesday following reports that the group was to build engines for German carmaker Daimler-Benz, fell back Y26 to close at Y346.

In Osaka, the OSE average improved 54.63 to 17,235.22.

JAKARTA unwound most of Tuesday's gains, falling 2.3 per cent as investors took profits. State-controlled companies bore the brunt of the selling. Semen Gresik, which surged 35 per cent in the previous session, came off Rp350 at Rp12,000, while Aneka Tambang, the day's most active stock, lost Rp100 at Rp1,950 on 32.5m shares traded. The composite index ended 10.97 lower at 472.98.

KUALA LUMPUR moved lower as traders tracked the yen's slide back towards Y140 to the dollar. Telecom came off 40 cents to M$6.80 and Tenaga lost 16 cents to M$4.80. The composite index finished 2.6 per cent or 12.27 lower at 455.28 after touching a low for the session of 454.20.

HONG KONG rebounded on the back of a stronger yen and lower interbank rates, but trade was thin as the market waited for further clues to the direction of the Japanese currency.

The Hang Seng index rose 185.00 or 2.2 per cent to 8,629.18 in turnover that remained very low at HK$3.5bn.

Index heavyweight HSBC Holdings added HK$3.50 to HK$191 as investors began adjusting their holdings ahead of the bank's interim results on August 3.

TAIPEI was spurred higher by surging electronics stocks on hopes of a better second-half performance from the sector. The weighted index rose 90.85 or 1.2 per cent to 7,936.82, but turnover was relatively slow at T$116.3bn.

Electronics surged 2.9 per cent, with Acer Peripherals up T$3 to T$46.70 and Kinpo T$4 higher to T$68.

Brokers expressed surprise at the upbeat performance, saying that there had been few concrete signals that the closely watched sector has turned the corner after a relatively slack second quarter.

SYDNEY made modest upward progress on the back of further good buying among banks and signs of a rally among selected resource stocks.

The All Ordinaries index added 4.8 at 2,774.1. Commonwealth Bank gained 28 cents to A$19.98. BHP regained 28 cents to A$14.20 and aluminium producer Comalco gained 20 cents to A$6.10.

WELLINGTON gained ground in thin volumes. Lion Nathan added 20 cents at NZ$4.55. Fletcher Building rose 18 cents to NZ$2.78. The 40 capital index improved 21.46 or 1 per cent to 2,088.99.

Finland

A nation which started the century as a grand duchy of Russia will end it with a stable economy and a strong role in Europe, says **Tim Burt**

Myriad contrasts: Kiasma, the new Museum of Modern Art; ice fishing competitions; the cathedral on Senate square; shipyards; and ice hockey

Photos. AP; FT (top right)

Taking its place on centre stage

For Finland, the approaching millennium promises to be a political and economic watershed.

The country which began the century as a grand duchy of Russia will end it holding the presidency of the European Union and as a founder member of the European single currency.

Parliamentary elections next spring could herald a change of government, as Finnish voters prepare to deliver their verdict on the so-called "rainbow coalition" – the five-party alliance which has held power since 1995.

Recent opinion polls point to another coalition, although it remains far from clear whether prime minister Paavo Lipponen, leader of the left-of-centre Social Democratic party, will be rewarded with a second term. To secure that goal the former political scientist will have to repeat a tricky juggling act, which four years ago enabled him to pull together a disparate grouping of Greens, Left-Wing Alliance, Conservatives, Social Democrats and the Swedish People's Party.

Given that each party plans to campaign separately, rivalries exposed in the run up to the election next March make that task all the more difficult. The shape of the new government, moreover, will depend crucially on the performance of the main opposition Centre Party, led by former prime minister Esko Aho.

Mr Aho, who negotiated Finland's entry into the European Union in the mid-1990s, has won a strong following in opinion polls with a populist platform appealing to the three chief concerns of Finnish voters: high unemployment, onerous income taxation and fears of creeping European federalism.

All three issues are easy targets to attack. Unemployment stands at more than 14 per cent, against 3.5 per cent in 1990. In the industrialised world, only Denmark and Sweden boast higher direct and indirect taxes. And many Finns, in spite of the government's enthusiasm for the euro, remain deeply suspicious of Brussels and its bureaucracy.

Additional voter concerns over public spending cuts and the delivery of welfare services all give Mr Aho plenty of ammunition to direct at the government. His ability to land a direct hit on the coalition, however, has been undermined by the government's success in managing a strong economy and carving out a new role for Finland in the EU.

In spite of Mr Aho's bluster, the government can lay claim to a strong economic revival since the recession of the early 1990s. Last year, Finnish GDP rose by 6 per cent, with industrial output rising 9 per cent in the first four months of 1998. Inflation remains low – 1.5 per cent in the year to April – and interest rates are modest at 3.4 per cent.

More importantly for the government's election prospects, unemployment is down on its 1994 peak of 18.4 per cent and taxes have been reduced – albeit modestly. A social partnership between ministers, employers and unions has also secured wage moderation, and public spending has been kept on a tight rein.

The government's prudent handling of the economy, moreover, has enabled Finland easily to meet the Maastricht criteria for European economic and monetary union. By doing so, the most northerly country in the EU has gained a place in the front rank of countries preparing to introduce the single currency.

Unlike Sweden and Denmark, its Euro-sceptic Nordic neighbours, Finland wants to develop closer ties with Brussels and sees the completion of the single market as a vital goal, rather than a threat.

Nevertheless, government ministers are not starry-eyed about the benefits of EU membership and are keen to use the country's EU presidency to press ahead with institutional reform. They also want to ensure that the commission safeguards the interests of smaller member states and to explore greater use of qualified majority voting.

Tarja Halonen, the country's foreign minister, emphasises however that Finland does not and cannot expect to use the presidency for its own ends. It will simply continue the work of the current Austrian presidency and its German successor in promoting reforms and the case for enlargement.

In one respect, nevertheless, the Finnish presidency promises to be different. The government hopes to develop the idea of a "northern dimension" to EU policy, which would address areas such as links with Russia, and transport, energy and infrastructure developments in the Baltic Sea and Arctic regions.

"It is not a regional initiative, confined to a limited group of member states and their neighbours," says Ms Halonen. "It involves the interests of the whole union in and around its northern areas."

By trying to expand the EU's horizons both north and east, Finland has underlined one of the over-riding objectives of its foreign, economic and security policy – namely, how to accommodate Russia in the process.

Finland, aware of its deep historical links to Moscow and a 1,300km border with Russia, has long been anxious to placate its neighbour to the east. That has persuaded it, for example, to eschew Nato membership in favour of the Western European Union. The government favours the development of a common European foreign and security policy, which would work alongside Nato but not defer to it.

Like most other parts of Finnish policy, the foreign and security agenda is built largely on a consensus approach that seeks close strategic co-operation between interest groups such as the WEU and Nato, while also proposing initiatives to raise the international profile of the Baltic Sea basin.

Finnish industry, by comparison, has shown no such restraint in forging international alliances. In the past year, Merita, the country's largest bank, has merged with Nordbanken of Sweden. UPM-Kymmene has extended its global ambitions in forestry products by paying US$650m for Blandin paper of the US.

Recently, Sonera – formerly Telecom Finland – has established a strong presence in the Baltic states, last month buying stakes in Lattelekon, the Latvian operator, and Lietuvos Telekomas, the Lithuania national operator.

The pace of industrial consolidation has also been highlighted by the recent merger in the paper industry between Enso of Finland and Stora of Sweden. That deal, creating the world's largest paper and board producer, was made possible only after the government agreed to swap its 47 per cent stake in Enso for a 20 per cent holding in the enlarged group.

Prime Minister Lipponen says the government is committed to reducing state holdings in such companies, in spite of criticism from the Centre Party that it could harm national interests. But there is no headlong rush to privatisation: rather a case-by-case review of assets.

That slightly cautious and pragmatic approach is mirrored in several other parts of Finnish government policy, from reform of taxation to social welfare benefits. It has not yet delivered the radical solutions to unemployment and income tax levels demanded by the opposition, but it has contributed to a stable economy and equipped Finland to take part in European economic and monetary union.

That is no mean achievement for a country whose economy at the start of the decade was marred by devaluations, recession and rising public sector debt. The reform process is not over, but Mr Lipponen is satisfied that "the main thing has been to establish a good starting point".

ECONOMY • by Tim Burt

Overheating is hazardous

While the finance minister refuses to panic about the deficit, he is far from amused

Sauli Niinistö does not suffer fools gladly.

During a meeting in Finland's parliament building, the country's minister of finance barely hides his irritation when a passer-by offers FM100 from his wallet to help reduce the state budget deficit.

Mr Niinistö, who is also chairman of the conservative National Coalition party, is not amused. He waves the joker away, and returns to his subject – the prospect of overheating in the Finnish economy.

Although the economy grew at 6 per cent last year and industrial output rose by more than 9 per cent in the first four months of this year, the finance minister says there no "concrete signs" of inflationary pressures and overheating.

Nevertheless, he admits that after several years of steadily rising GDP and modest inflation the government cannot afford to be complacent.

"It is a serious concern that in spite of this growth we are still seeing a general government deficit that is far too big, and it looks like it will continue into the next millennium," he adds.

The Finnish budget, in spite of efforts to achieve a balance, is expected to show a deficit of FM10bn-FM15bn this year and next, while GDP is expected to slow to 4 per cent in 1998 and 3.5 per cent in 1999. GDP in April was up 5.8 per cent year on year, compared with rates of 7.7 per cent in the same month of 1997.

Government officials, nevertheless, do not expect inflation – at 1.5 per cent in the year to April – to rise above 2 per cent this year.

That all looks encouraging. Certainly, Finland is healthier than several other economies in the European Union. It has achieved a current account surplus; interest rates are relatively low at 3.4 per cent; and it has met all the criteria to participate in the first wave of European economic and monetary union.

But there are clouds on the horizon, which threaten to reduce the government's room for manoeuvre in managing the economy ahead of next year's parliamentary elections.

The onset of the election campaign could expose political tensions within the coalition over fiscal policy, particularly between the Social Democrats led by prime minister Paavo Lipponen and Mr Niinistö's conservative colleagues.

Mr Lipponen's instinct is to avoid any reduction in welfare spending, which in spite of recent cuts still amounts to more than 50 per cent of GDP. Members of Mr Niinistö's party, on the other hand, would like to see curbs in public expenditure and a reduction in Finland's high personal tax burden. It is a highly contentious issue.

Jaakko Iloniemi, managing director of the Centre for Finnish Business and Policy Studies, argues that it would be difficult to achieve a balanced budget without relatively high personal tax revenues. Moreover, he believes it would be political suicide for the government to propose heavy cuts in welfare spending.

"All this means that fiscal policy could become the single most important tool for regulating the economy," he says.

Finland's entry to Emu and the completion of the single market will certainly increase the government's reliance on fiscal discipline, because it effectively removes monetary policy and the use of currency devaluations from the government's economic armoury.

At the same time, EU proposals to harmonise indirect taxes could deprive the government of another useful source of revenues in its pursuit of a budget balance. The FM7bn a year derived from higher-than-average alcohol duties is due to be phased out by 2003 at the latest, along with special taxes on new car sales and private borrowings.

"This gives us a problem if we want to decrease income taxation," says Mr Niinistö. "We would need to tighten fiscal policy elsewhere, which might not be an option. And as long as we are running a deficit, we cannot borrow to fund tax cuts."

One option could be to increase Finland's relatively low corporation tax rate of 28 per cent. But that would soon damage competitiveness and is not likely to be considered while the government is trying to address high unemployment.

Unemployment in May stood at 14.6 per cent, up from 14.3 per cent in April.

Although the increase was attributable mainly to the arrival of school-leavers in the summer job market, the jobless totals remain uncomfortably high for a country which as recently as 1990 reported only 3.5 per cent of the labour force out of work.

Many economists believe it will never return to those levels because of structural problems, dominated by an ageing workforce that cannot meet skills shortages in some parts of Finland.

"There is a large pool of available labour, but many of the jobless either live in the wrong part of the country or are not trained to work in the growth industries of construction and electronics," according to one Helsinki economist.

Given the government's determination to achieve a balanced budget, it may not be in a position to release spending to ease unemployment and would certainly not want to prevent job creation by increasing taxes on employers.

The dilemma for Mr Lipponen's left-leaning social democrats and its conservative coalition partners is how to prevent overheating in the economy while resisting calls for tax cuts and pressure for higher interest rates.

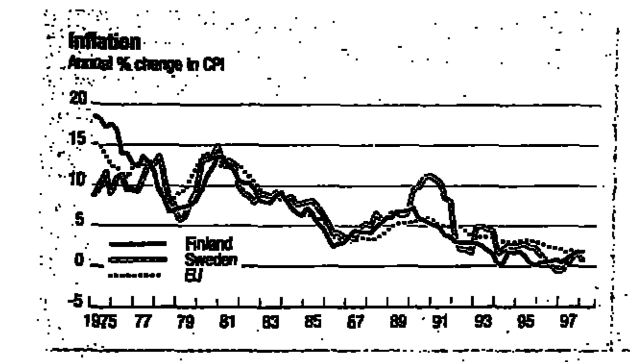
Matti Vanhala, the new governor of the Bank of Finland, has indicated that there will be no change in monetary policy. Although rising domestic demand remains a concern, he maintains that the dampening affect of economic turmoil in Asia has helped contain inflationary pressures.

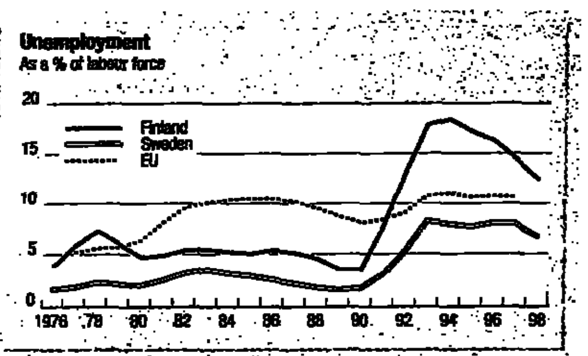
In the absence of higher interest rates, however, the government is aware that it needs to maintain wage moderation to help curb signs of rising inflation.

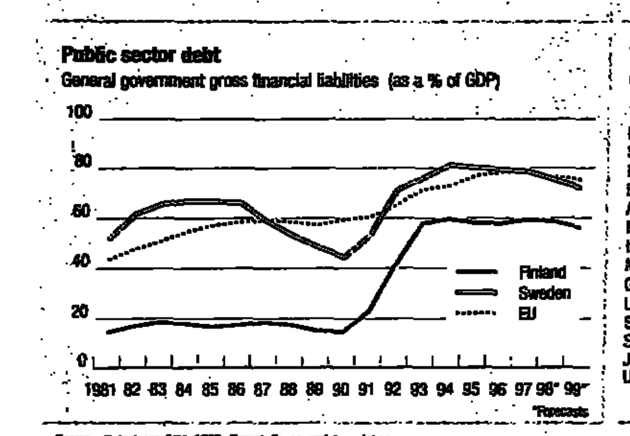
Finland's leading trade unions have agreed to a relatively modest wage deal until the end of 1999. But they may seek more generous terms beyond that.

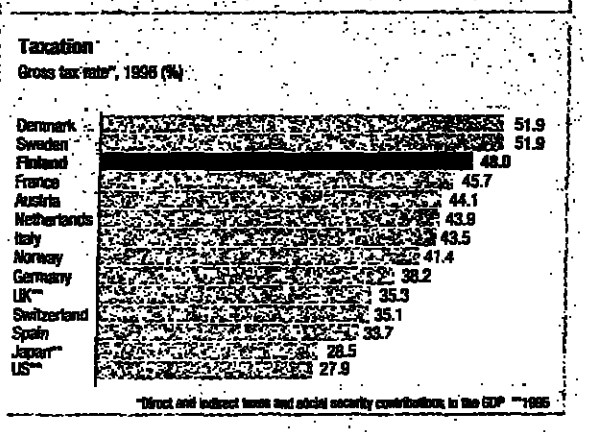
Against such a background, Mr Niinistö takes the pragmatic view that fiscal policy may have to be tightened, if anything, to avoid the threat of overheating. But he plays down any dramatic moves to squeeze Finnish taxpayers.

"After a long period of growth, there is always a danger of overheating – especially in construction and housing," he adds. "We have to keep a keen eye on the situation, but we are not panicking."









Sources: Datastream/ICV; OECD; Finnish Taxpayers' Association

The state budget deficit is no laughing matter for Sauli Niinistö, minister of finance Photo: Reuters

Tarja Halonen: Finland will underline the importance of its northern frontier Photo: AP

FOREIGN POLICY • by Tim Burt

Between a rock and a hard place

Nation manages to embrace the EU and develop strong links with Russia

Ask any government official to indicate Finland's international interests on a world map, and they will almost always point to the same areas: Moscow and Brussels.

Finnish foreign policy, they explain, is built on two pillars – the desire to forge ever closer ties with the European Union and a grim determination not to antagonise Russia.

"It is a difficult balancing act, but it has served us well so far," according to one senior adviser at the ministry of foreign affairs.

The trick for Finland has been to overcome its location on the north east fringe of the European Union to become a central player at the negotiating table in Brussels. At the same time, it has maintained close trade and economic links with Russia, with which it shares a 1300km border.

Although it only joined the EU in 1995, Finland has energetically embraced its policies, none more so than European economic and monetary union. It was one of the first countries to meet the Maastricht criteria and has vowed to become a founder member of the single currency.

Its Euro credentials have been rewarded by being offered a board seat at the European Central Bank and the presidency of the EU in the second half of 1999.

The country's coalition government believes that close ties with Brussels should, moreover, help it to placate nervousness in Russia about a much thornier issue – the eastward enlargement of Nato.

Finland has, since the Second World War, maintained neutrality and worked hard to develop a business-like relationship with Moscow. In security policy, that has persuaded successive government to eschew membership of Nato in favour of looser defence ties with the west.

Tarja Halonen, minister of foreign affairs, says the current government has refined that policy by allying itself closely with the Western European Union (WEU).

Ms Halonen, a former trade union lawyer and minister of social welfare, denies that the WEU has yet to prove itself as an effective defence agency, emphasising instead that it has been a successful tool for maintaining peace in the region.

"We see it as an agency to promote a common foreign and security policy, and it has an important role for those countries that are not military aligned," she says.

But some foreign policy analysts believe that Finland is part of Nato in all but name. Certainly its forces co-operate closely with those of the alliance and it could have to make a choice with the next wave of enlargement, particularly if some of its Baltic Sea neighbours seek membership.

"Enlargement of Nato is crucial for us, particularly if it plays into the hands of the nationalists in Moscow," says one foreign affairs analyst in Helsinki. "Given our long border with Russia, that is something we want to avoid at all costs."

If the WEU represents a convenient vehicle to soothe Russian concerns over Nato, then other regional agencies such as the Barents Euro-Arctic Council and the Council for the Baltic Sea States are seen by Finland as useful forums to involve Moscow in the development of the region.

The Finnish government hopes to unite these themes by creating a northern dimension to the EU and its relations with Russia.

The initiative, announced last year by Prime Minister Paavo Lipponen, seeks to emphasise the interdependence of the EU, Russia and Baltic Sea region. Mr Lipponen thinks Finland can play a pivotal role in that process, extending beyond security issues to social welfare, energy and environmental policies.

In the field of energy alone, the EU's requirements for imported energy could be served by helping Russia to exploit its main hydrocarbon deposits north of the Arctic Circle.

Mr Lipponen and his ministerial colleagues regard the dimension as one way to integrate Russia further into northern Europe, while also enabling Finland and its EU neighbours Sweden and Denmark to counter the southern dimension of the so-called "Club Med" countries.

They believe the importance of the EU's northern frontier will increase with the next phase of enlargement, and the Baltic Sea region could become one of the most important growth regions in the union.

Given that the EU accounts for almost 40 per cent of Russia's foreign trade – with the Baltic Sea as the principal trading route – the Finns want to ensure that on-going relations remain as smooth as possible.

Ms Halonen says the country will use its presidency of the union next year to underline the importance of this northern frontier. "We are trying to convince the commission that it is a good idea. It will give Brussels an opportunity to extend links with Russia, Norway and the Baltic states."

But she emphasises that Finland will not be distracted solely by issues close to home.

The government plans to use its presidency to promote four key areas: institutional reform, composition of the commission, the weighting of votes in EU institutions and the difficult issue of qualified majority decision making.

"We are prepared to work constructively for institutional reform," says Mr Lipponen. "It is something where things can only move if there is consensus."

The prime minister however, makes clear that he wants to see some reform of the commission before the next wave of EU enlargement. At the same time, he is committed to ensuring that the launch of the single currency is a success.

By doing so, the Finnish government hopes to distinguish itself from its Euro-sceptic neighbours as one of the champions of Emu.

Under the strategy mapped out by foreign ministry officials, that would generate the twin benefits of strengthening Finland's ties with Brussels and diverting attention away – at least temporarily – from addressing the challenges thrown up by its future security interests in the region.

Finnish president Martti Ahtisaari and president Boris Yeltsin of Russia met on board a boat at their mutual border last year

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THE EURO •

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The focus has shifted from politics to practical preparations

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THE EURO • by Greg McIvor

A delicate balancing act

The focus has shifted from politics to practical preparations

From the moment his Social Democratic party regained power at Finland's last general election in 1995, Paavo Lipponen had one overriding European policy goal: to take the country into the planned single currency.

Securing Finnish participation in monetary union's initial phase has been a delicate balancing act for Mr Lipponen in the face of lukewarm public support for the project, and as the head of a five-party coalition spanning widely divergent views on the euro.

That he succeeded is no mean accomplishment, particularly as government popularity has suffered from the tough fiscal medicine prescribed by the government to ensure Finnish compliance with the Emu entry criteria.

Polls reveal a stark split in public opinion over the single currency, with supporters of Finnish involvement matched in equal number by opponents. Despite the protestations of Esko Aho, leader of the main opposition Centre party, Mr Lipponen resisted calls for a referendum, preferring to let parliament take the historic decision to relinquish the markka.

With that decision now taken and the markka already locked into the euro currency matrix, the focus has shifted from the political domain to practical preparations for monetary convergence.

Public sentiment may remain divided, but Finnish companies are running at full tilt to ensure their readiness for the euro when it arrives on January 1 next year.

According to a survey by the Confederation of Finnish Industry and Employers, two-thirds of the country's manufacturers plan to switch to accounting in euros in 1999.

Large corporations such as Nokia, the telecommunications giant, are rushing to install new computer software and adopt new accounting procedures to enable them to deal in the new currency from its inception. Like many of the country's largest exporters, Nokia is planning to use the euro as its accounting and reporting currency from January 1.

Petteri Rahkonen, senior manager at Nokia's group treasury, says the prime task is to persuade suppliers and customers to convert quickly as well.

"Euro invoicing is something we prefer and recommend. The euro is coming anyway in the end so the earlier you start the easier it will be at the end of the transition period."

Although the markka's exchange rate will be irrevocably fixed against the euro at the turn of the year, euro notes and coins will not become available until 2002. Until then the markka will remain the sole vehicle for cash transactions.

It remains to be seen how fast Finnish companies will jump from the markka to the euro in invoicing. While big groups like Nokia aim to switch as soon as possible, many small and medium sized companies are likely to wait.

And even among the larger companies, only a small minority are considering switching to the euro for payroll purposes from an early stage.

Sivo Pinomaa, a Confederation of Finnish Industry and Employers official, says a perception exists among companies and individuals that sticking with the markka is easier for tax declaration purposes – although Finland's tax authorities have made clear that any business or individual wishing to pay tax in euros will be able to do so from the start of 1999.

A number of leading exporters, notably the country's large pulp and paper groups, were initially chary about giving up the markka, fearing it would expose the business to competitive devaluations by neighbouring Sweden.

But the concerns have receded amid a realisation that non-euro EU countries will have little leeway for more relaxed monetary policies if they want to avoid becoming a target for speculators.

Metra, a large manufacturing conglomerate, sees the euro as an unqualified commercial blessing. Close to half its sales and about 70 per cent of its operating costs are in eurozone countries.

Not only will the euro cut currency transaction and administration costs, it will dramatically lower the cost of purchasing forward contracts to hedge against foreign exchange swings, according to Timo Lehto, a Metra senior vice president.

The cost of converting to the euro is as nothing compared with the beneficial long term impact, Mr Lehto argues. This view is shared even by Finland's banks, which perhaps stand to be the biggest immediate losers from the single currency because of a drop in foreign exchange trading income.

MeritaNordbanken, the dominant commercial lender, has set aside FM200m for the transition, mainly in the form of new data systems, training for staff and information to customers. At the same time, the bank envisages a drop in annual revenue from foreign exchange trading of FM150m-FM200m.

But Pertti Voutilainen, a senior MeritaNordbanken executive, says long-term gains will outstrip the immediate drop in income and higher costs. "We might lose a little in the short term but when you look at the development in the long run we are a winner. What is good for our customers is good for us."

Mr Voutilainen hopes diminished income in forex activities will be more than offset by increased equity trading. Peter Bradshaw, head of Nordic equity research at Merrill Lynch in London, says: "Trading volumes are going to explode because the cost of doing these trades is going to be much lower. For instance, a German pension company will be able to own Finnish stocks whereas they will not be able to own Swedish securities because of the currency difference."

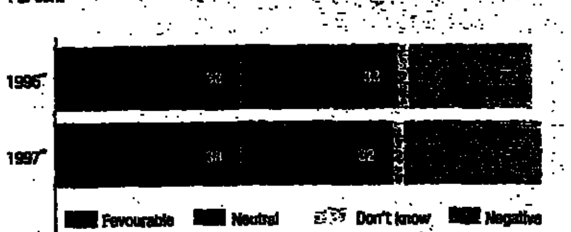
On the ground, Finnish consumers are likely to notice little immediate difference in their daily lives from January 1. Many retailers have only hazy plans to adopt dual labelling of goods in stores, although Kesko, the country's largest food wholesaler and retailer, plans to introduce dual labelling of products in its stores from the end of January next year.

Jouko Kuisma, Kesko's director of international trade organisations, says the company will also extend its customer loyalty card scheme to euros. Nevertheless, he does not foresee any immediate surge of consumer interest.

"I don't believe they will take much notice in the beginning. For them the euro will only be theory, not reality," he says. "1999 is not the big change. 2002 is the big change."

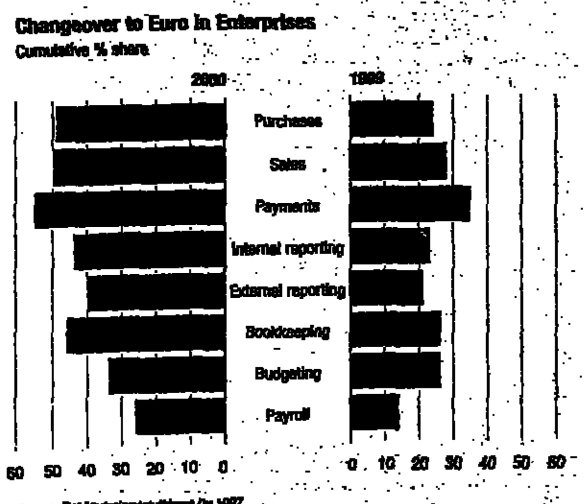
Current attitudes towards Finnish EU membership

Per cent



Changeover to Euro in Enterprises

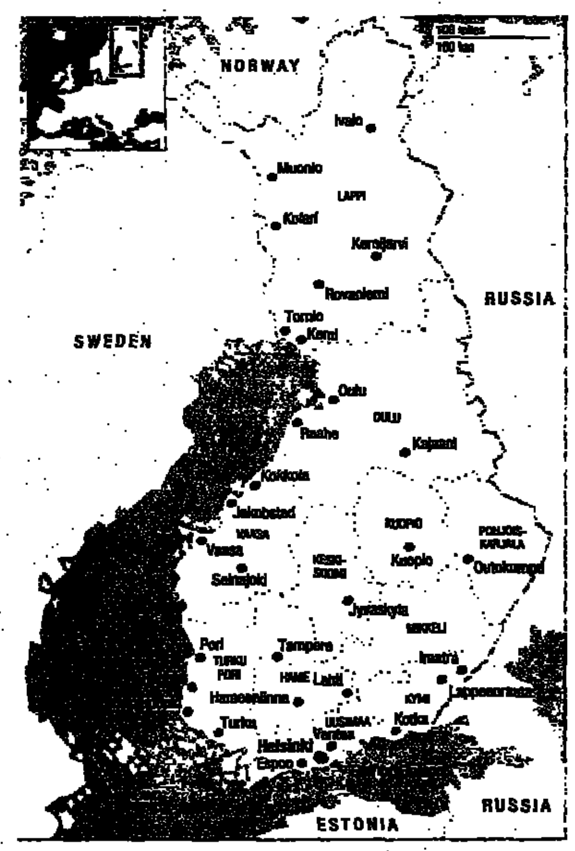
Cumulative % share



Constitution

• Official name
Republic of Finland
• Form of state
Parliamentary republic
• Legal system
Based on constitution of 1919
• National legislature
Unicameral Eduskunta (parliament) of 200 members directly elected for a four-year term; the president is empowered to dissolve the Eduskunta prematurely
• Electoral system
Universal direct suffrage over the age of 18; the d'Hondt system of proportional representation is used in 15 multimember constituencies
• National elections
March 19 1995; next election due by March 1999
• Head of state
President, who is declared elected if he or she receives an absolute majority of votes cast in the first round; failing this, a second round is held between the two leading candidates of the first; the current president is Martti Ahtisaari, who was elected for a six-year term in February 1994
• National government
Council of State (valtioneuvosto) headed by the prime minister, responsible to parliament; the government is currently a coalition of the Social Democratic Party, the Conservatives, the Left-Wing Alliance, the Swedish People's Party and the Green Party, with 145 seats
• Main political parties
Social Democratic Party (SDP; 63 seats); Centre Party (44 seats); Conservatives (KOK, National Coalition Party; 39 seats); Left-Wing Alliance (VAS; 22 seats); Swedish People's Party (SFP; 12 seats); Green Party (9 seats); Finnish Christian Union (SKL; 7 seats); Young Finns (2 seats); Finnish Rural Party (1 seat); Ecology Party (1 seat)

Sources: EIU; Datastream/ICV



• Area: 338,150 sq km
• Population: 5.13m (January 1 1997)
• Languages: Finnish and Swedish
• Currency: Markka (FM) = 100 penni
• Exchange rate: 1997 average $1 = FM5.1900
July 1 1998 $1 = FM5.5270

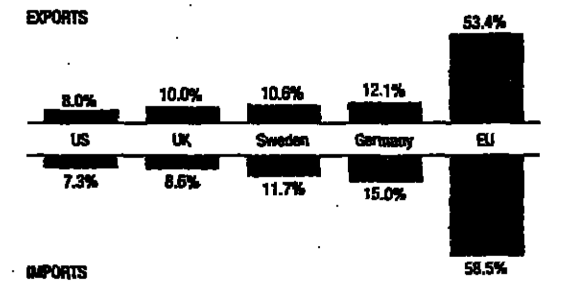
• Main towns and population (1997)

Helsinki (capital)	532,053
Espoo	196,260
Tampere	186,026
Vantaa	168,778
Turku	166,929

Economic summary

	1997	1998 (forecast)
Total GDP ($bn)	117.9	121.1
Real GDP growth (annual % change)	5.9	4.0
GDP per head ($'000)	22.9	23.5
Inflation (annual % change in CPI)	1.2	1.8
Average earnings (annual % change)	3.1	3.7
Unit labour costs (annual % change)	0.9	1.9
Manufacturing production (annual % change)	9.3	6.2
Unemployment rate (% of workforce)	14.5	13.6
Foreign exchange reserves ($bn)	8.4	7.7
Government expenditure (% of GDP)	54.4	53.1
Government budget balance (% of GDP)	-1.4	-0.6
Current account balance ($bn)	5.5	4.9
Merchandise exports ($bn)	39.5	41.5
Merchandise imports ($bn)	28.6	30.1
Trade balance ($bn)	10.9	11.4
Base rate (%)	4.0 [1]	4.0 [2]
Three-month interbank rate (%)	3.56 [1]	3.66 [2]
10 year bond yield (%)	5.52 [1]	4.92 [2]

Main trading partners (share of total trade to world 1996)



[1] End December [2] End June

ALAND ISLANDS • by Tim Burt

Tax-free status is invigorating

This enclave has retained its Swedish character but is funded by Finland

When the Pommern sailed into Sviby Bay almost 60 years ago, few aboard imagined it would be the last voyage for the four-masted cargo vessel – destined to end its days exiled in the Aland Islands.

The ship, a veteran of the England-Australia grain route, was confined to the Baltic Sea archipelago by the outbreak of the Second World War, and there it has remained.

Some visitors to Mariehamn, the island capital where the Pommern is tied up, assume that not much has changed since she arrived. Many of the white-washed and rust-red wooden houses have stood for generations, the parks date back to the 1860s, and the whole place still looks in one direction for its prosperity – to the sea.

Without any heavy industry to speak of, Mariehamn and the 6,500 islands and skerries it commands relies heavily on fish products and flourishing ferry traffic, which carries thousands of visitors a year to this outlying part of Finland.

Tourism has started to overtake agriculture as one of the region's main commercial interests, although the local government remains committed to preserving self-sufficiency and, more importantly, an export trade in dairy produce and potatoes.

The 30-member legislature, moreover, is also determined to maintain the special status of Aland. In 1921, the League of Nations resolved centuries of wrangling by deciding it should become part of Finland with special self-governing status.

Although technically Finnish territory, the archipelago is a Swedish-speaking enclave which takes its cultural lead from Stockholm rather than Helsinki. As such, it has been able to retain its Swedish-ness while receiving central government funding and aid from Finland.

More importantly for its financial well being, Finland negotiated a special tax-free status for Aland when it joined the European Union in 1995. Since then, its position outside the EU's tax union has reinvigorated the tourist trade and turned Mariehamn into a hub for Baltic Sea ferries.

Such traffic is expected to increase sharply next year following the abolition of duty free sales elsewhere in the EU – a move which has persuaded Stockholm-Helsinki ferry operators to reroute sailings via Mariehamn.

Senior executives at Viking Line, the ferry company based in Aland, believe the move could persuade other ferry operators to begin Baltic Sea services. "It is a very real possibility that duty free abolition could lead to more companies competing on these routes," says Kent Nyström, deputy-managing director of Viking.

In the short-term, however, Mr Nyström is more concerned about the administrative headache caused by the impending introduction of the European single currency. In most Eurozone countries and indeed most parts of Finland, the Euro will mean a switch in accounting policies and twin pricing of products – at least until the introduction of notes and coins in 2002.

But businesses based in Aland already conduct business in Finnmarks and Swedish Krona. As Sweden is not taking part in European economic and monetary union, islanders and their businesses are preparing for triple pricing from the beginning of 1999.

"It is a big practical problem and we have not solved it yet," says Mr Nyström.

His reservations are shared by Peter Grönlund, deputy-managing director of the Bank of Aland. The bank, employing 300 people, has appointed a euro co-ordinator to help prepare staff for the new currency and monitor developments in the mainland's banking industry.

"We have been preparing for the euro for a couple of years. But it is going to be a mess with three currencies being quoted when the changeover takes place," says Mr Grönlund.

That prospect has exposed a strong vein of EU-scepticism among islanders, many of whom remain suspicious about Brussels and particularly the impact of the Common Agricultural Policy on the farming industry.

Roger Nordlund, finance minister in the Aland government, says: "The opinion about the EU is negative, even though we are helping to spread information about the euro."

As a senior member of the island's seven-strong executive, Mr Nordlund is responsible for ensuring that the transition to the single currency is smooth. He admits that the changeover – expected to cost Aland industry about FM20m – could be problematic, but says it is unlikely to inflame tensions with the Finnish government.

"In spite of euro-scepticism, Alanders are rather pragmatic people and we realise that we cannot change what has been decided in Helsinki. We can only make the best of it."

Signs of discontent are difficult to detect on the streets of Mariehamn. Even by Finnish standards it is an affluent community, with an annual government budget of FM1.2bn to cover a population of 25,000.

Unemployment is no more than 3 per cent, and lower still during the summer tourist season. The cost of living is high, but so is the standard, with little crime and poverty virtually unknown.

The island government uses its spending and decision-making powers in education, social services and healthcare to keep it that way, while Helsinki retains responsibility for trade and industry, foreign policy and law and order.

"We pay the same state tax as other Finns and receive back 0.45 per cent of total tax revenues, that sum we can spend as we like," says Mr Nordlund.

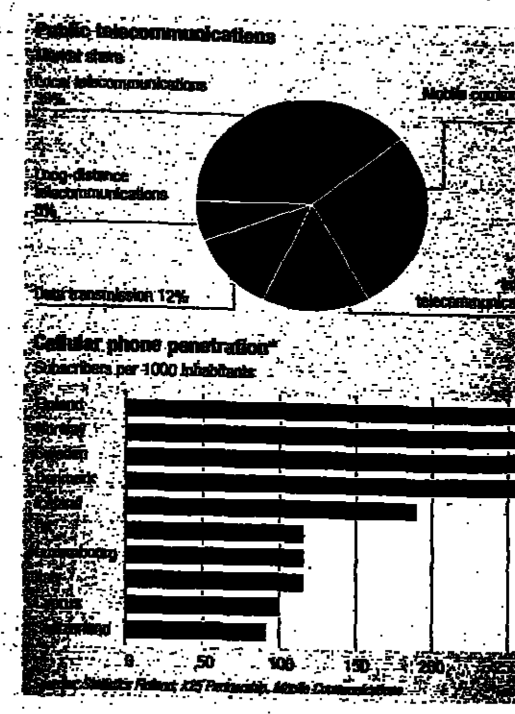
"Some is used to enable people to go on living in remote parts of the archipelago. They have a rather special way of life and we want to preserve it."

Tourism has started to overtake agriculture as one of the region's main commercial interests

Photo: Dave G.Houser/Corbis

Finnish business guide

Climate: Temperate, with warm summers and cold winters. Summer temperatures average around 17 degrees C, winter around -1 degree C although can reach as low as -30 degrees C in February. Heavy snow from December-April.
Entry requirements: Visas not required for nationals of most European countries, and of several other countries.
Customs: Personal effects duty free, plus duty free allowance.
Health precautions: Polio and tetanus vaccinations mandatory.
Air access: Regular daily flights by most major international airlines.
National airline: Finnair.
Main international airport: Helsinki-Vantaa (HEL), 19 km north of capital.
International airports: Jyvaskyla (JYV), 21 km from city Kemi (KEM), 6 km from city Kokkola (KOK), 22 km from city Oulu (OUL), 15 km south-west of city Rovaniemi (RRVN), 10 km from city Tampere (TMP), 15 km from city Turku (TKU), 7 km from city Vaasa (VAA), 12 km from city.
Helsinki Vantaa airport, 20 km north of the city is being extensively modernised, with a range of new business facilities.
Surface access: Daily ferry services from Sweden, twice weekly from Germany and Poland. Reservations advised.
Main ports: Helsinki, Kotka, Hamina, Mariehamn, Vaasa, Turku, Pori, Skoldvik, Rauma and Oulu.
Hotels: In Helsinki and surrounding area, classified into five price categories.
Generally of a high standard. Rates vary depending on location, facilities and season. Reservations advised. If accommodation is unobtainable, a place may be found through 'Hotellikeskus' (accommodation clearing-house) at the Central Railway Station in Helsinki.
Gratuities are not expected, with the exception of porters. Service is included in restaurant bills although a little extra can be added.
Currency: The markka is related to a trade-weighted basket of currencies.
Foreign account restrictions: Some account restrictions for payment between Finland and countries with currencies (rouble) that are not freely convertible.
Certain foreign exchange controls were lifted on 1 July 1990. These allow non-residents to take unlimited amounts of money outside the country without having to get permission from the Bank of Finland.
Credit cards: All major international credit cards are accepted.
Car hire: Available in most major towns. Rates include oil, maintenance and insurance.
Minimum age limit (usually between 19-23) and at least one year's driving experience required. Speed limits, 50 kph in built-up areas, 80-100 kph on normal roads and 120 kph on motorways. Seat belts are compulsory.
The use of headlights is at all times obligatory.
City transport: Helsinki Card available for 24, 48 and 72-hour periods provides a free city tour by bus, admittance to 50 museums and tourist attractions, and discounts at selected shops and restaurants.
Taxis: Available outside hotels, from ranks, by telephone or can be hailed in the street. Identifiable by "Taksi" sign on roof. It is best to ask the concierge to tell the driver your destination or to have it written down.
Extra charges at night and weekends. Can be reserved by phoning the Helsinki Taxi Centre (tel: 700-700). Taxis can be picked up in front of the arrivals terminal, the journey into town taking around 25 minutes. A cheaper and just as reliable alternative is a shared taxi (minibus), with frequent departures.
Tipping is not expected.
Buses: Good services throughout country. Flat fare in Helsinki also 10-journey ticket obtainable. A number of city centre hotels run shuttle services to the airport and Finnair operates a bus to the city terminal and main railway station.
Metro: The subway is ideal for trips to points between the south-west and north-east of the city.
Trams: Service in Helsinki.
Air: One of the densest internal networks in Europe. Finnair provides connections between Helsinki and Ivalo, Joensuu, Jyvaskyla, Kajaani, Kemi, Kittila, Kokkola, Kuopio, Kuusamo, Lappeenranta, Mariehamn, Mikkeli, Oulu, Pietarsaari, Pori, Rovaniemi, Savonlinna, Tampere, Turku, Vaasa and Varkaus.
Road: Finland's 77,000-km network of public roads includes 11,494 km of high-grade national highway and 29,703 km of secondary routes, but only 215 km of motorways.
Buses: Efficient coach services cover the entire country, and are the main form of transport in Lapland.
Rail: Network of around 6,000 km (including 1,500 km electrified), operated by state railway company "Valtionrautatiet". Relatively inexpensive and there are several passes available allowing travel over a set period. Seat reservation is obligatory on special express trains.
Water: Important method of transport, owing to large number of lakes (187,888), which cover 31,500 sq km.
Public holidays: 1 Jan (New Year's Day), 1 May (May Day), 6 Dec (Independence Day), 24-25 Dec (Christmas), 26 Dec (Boxing Day).
Variable dates: Epiphany, Good Friday, Easter Monday, Ascension Day, Whit Monday, Midsummer and All Saints' Day.
Working hours government and business: (Mon-Fri) 08.00-16.00, close 15.15 during summer.
Banking: (Mon-Fri) 09.15-1615.
Shops: (Mon-Fri) 09.00-17.00 or later, (Sat) 09.00-16.00, closing 14.00 during summer.
Business meetings: sometimes held in saunas. If invited to a sauna, you should go, as it is a sign you are accepted.
Business language and interpreting/translation: Available through tourist offices or through classified section of telephone directory under Kaanostoimistoja ja kielenkaantajia.
Telecommunications
Telephone and telefax: Direct dialling to most towns and most European countries.
International dialling code: 358 followed by 9 for Helsinki.
For IDD access from Finland dial 990.
Postal services: Stamps available from post offices, book/paper shops, kiosks, stations and hotels. Mail may be sent "Poste Restante", c/o Main Post Office in Helsinki (or other city).
Banking: System headed by Suomen Pankki (Bank of Finland), which is responsible for monetary policy and foreign credit. Union Bank of Finland and Kansallis-Osake-Pankki merged in June 1995, under new name of Merita Bank, now Merita Nordbanken. Skopbank is the central bank.
Trade fairs: Most important are Helsinki International Fair (consumer goods) and Helsinki International Technical Fair, which are held alternately every autumn at Helsinki International Fair Centre, at Pasila, about 6 km from the capital. All exhibitions held at the Centre are organised by Finnish Fair Corporation, "Osuuskunta Suomen Messut".
Electricity: 220 V AC.
● Source: World of Information, March 1997



MEDIA • by Greg McIvor

A wave of mergers is in the air

Rude health of economy helps bolster consolidation in the sector

"Winning is fun; losing is no fun," reads the poster on Jaakko Rauramo's office wall. The president of Sanoma Corporation, Finland's biggest media group, evidently takes the motto seriously. No sooner did two rivals launch a multi-billion markka merger in April than Mr Rauramo responded with a bigger three-way tie-up of his own.

The two deals have sent a bolt of energy through Finland's media market. By merging with its unlisted sister company, Helsinki Media, and WSOY, one of Finland's leading publishing houses, Sanoma has upped the stakes in a battle for market hegemony with Alma Media, its thrusting, smaller competitor.

By Finnish standards, the consolidation of the past year has been seismic. The ball started rolling last spring when Aamulehti, a broadcasting, newspaper and publishing group, and MTV, Finland's largest commercial television station, announced plans to merge as Alma Media.

Under pressure to bolster its market leader status, Sanoma reacted by pulling off a FM13bn merger with WSOY and Helsinki Media, to form the second largest newspaper and broadcasting conglomerate in the Nordic region, after Bonniers of Sweden. Sanoma, which is privately owned, will float the enlarged group on the Helsinki stock exchange next year.

According to Mr Rauramo, president-designate of Sanoma-WSOY, wide scope exists for cross-fertilisation between different media businesses. He believes the consolidation enhances opportunities to expand internationally at a time of increasing competition from foreign media companies. In addition, bigger groups are better equipped for the heavy investment required in today's high-tech world.

Investors certainly like the idea. WSOY's shares soared by 53 per cent immediately after the deal with Sanoma was announced.

Nevertheless, the feverish round of M&A activity has raised fears over the creation of a media oligopoly. Between them Sanoma-WSOY and Alma Media will control around 70 per cent of Finland's media market, worth close to FM6bn a year.

Mr Rauramo admits concentration of media ownership can stifle creativity. But Matti Packalen, his counterpart at Alma Media, brushes off the worries. "The structure of media is such that in any country you will see a trend towards the emergence of a handful of key players, and this is also the case in Finland," he says.

More important for Mr Packalen, the merger will provide his company with the editorial and financial resources to compete effectively when digitalisation of television services arrives early next century.

Digitalisation will put a far greater range of channels and services at viewers' disposal than is the case today. Programme makers like Alma Media say they will struggle to compete against larger media conglomerates unless able to pool resources and spread the increased cost of making a wider range of programmes.

"Digitalisation has opened up the sector," says Ari Lahti, managing director of Protos Stockbrokers in Helsinki.

The rude health of the Finnish economy is also aiding the consolidation. Media advertising revenues surged by 14 per cent in the first four months of the year; Protos predicts average annual growth of about 8 per cent until 2000 and beyond.

"Television advertising [spending] is still one of the lowest in Europe and we are expecting that to rise. The same goes for radio," says Mr Lahti.

For decades, newspapers have been the main engine of advertising revenue growth in Finland, accounting for more than half all media advertising expenditure – significantly higher than the European average.

According to Seppo Kievari, publisher of Sanoma's Helsingin Sanomat, the country's largest daily newspaper, the explanation is an unusually strong and long-standing loyalty among Finns to newspapers. Each day, 87 per cent of the population reads a newspaper – a penetration rate bettered only by Norway and Japan internationally.

Manifold reasons are advanced for this. One, perhaps apocryphal explanation, is an old law that required couples to be able to prove they could read and write before being allowed to marry in the Lutheran church. The best way to pass the test? Reading a daily newspaper.

The strength of the domestic press has hitherto deterred foreign media houses from entering the market. Apart from Bonniers' 23 per cent stake in Alma Media, foreigners are not present on any significant scale.

In television, radio and publishing, though, the story is different. Competition is growing strongly as overseas companies branch out from their home markets.

For years, a combination of state regulation, the language barrier and Finland's peripheral geographical position made the country unattractive to foreign media. But the liberalisation of television and radio services, Finland's entry into the European Union and the advent of cable, satellite and digital services has stirred interest.

The past few years have seen a flurry of activity. A number of international cable and satellite television companies, such as Canal Plus of France, are already active.

Scandinavian Broadcasting System, a US-based company 23 per cent owned by Walt Disney, won several radio concessions a couple of years ago. NRJ, a French youth music radio, operates the most listened-to popular music radio station in Helsinki. Capital Radio of the UK applied for radio licences in the last wave of deregulation tenders, while Aller Group of Denmark has a strong niche in the leisure magazine market.

As the competition intensifies, Mr Lahti foresees more joint ventures between Finnish and other Nordic media groups. Collaboration in developing content for programmes as well as in fields such as the purchasing of rights for foreign productions will be necessary to achieve economies of scale.

As Mr Packalen at Alma Media stresses: "We are constantly interested in creating new opportunities in the other Nordic countries and in that light we are open to collaboration with others."

TELECOMMUNICATIONS • by Greg McIvor

In a cellular class of its own

About 46 per cent of Finns own a mobile phone – the world's highest density

At Kikkonummi high school, half an hour's drive from Helsinki, an incongruous sound echoes down the corridor. As pupils emerge from their classrooms at break-time the bleeping of mobile phones fills the air. Handset-clutching pupils stand around, ringing each other for a quick chat or swapping electronic messages.

The scene is mirrored at schools up and down Finland every day during term time. According to Sonera, the recently renamed state-owned telecommunications utility, the penetration rate of mobiles among 18- and 19-year-olds is close to 100 per cent, while more than half of the country's 16-year-olds own a portable.

In many other European countries mobile phones are still graduating from business tool to consumer toy. In Finland, the cellular boom has assumed altogether wider proportions. An estimated 46 per cent of the population owns a mobile – the highest density in the world.

The eye-catching figures go some way to explaining the buoyancy of Finland's telecommunications market and the rise of Nokia to become one of the world's leading telecoms groups and the second largest global supplier of mobile phones, after Motorola of the US.

Public enthusiasm for mobile telephony is matched in other telecom-related fields such as the internet. No other country has higher per capita ownership of personal computers with an internet connection.

Why is this? Apart from Finns' oft-quoted passion for new technology, the reasons are largely historical, says Veli Sundbäck, Nokia executive vice-president.

Finland, along with Sweden, Norway and the UK, was among the first in Europe to deregulate its telecommunications sector. Liberalisation triggered an influx of operators and equipment suppliers eager to grab a slice of the market. This forced domestic service providers such as Sonera and infrastructure makers such as Nokia to cut costs and improve productivity to stay competitive.

Besides the presence of foreign groups, such as Sweden's Telia, Finland is home to dozens of companies. Many, though, are small, local companies focused on the thin-margin, fixed-line local calls business.

"Without that fierce competition on our home market we would never have been able to achieve worldwide competitiveness," Mr Sundbäck says. Nokia has just 5 per cent of its sales in Finland but more than half its workforce there, as well as three-quarters of its research and development staff.

Mr Sundbäck's sentiments are echoed by Pekka Vennamo, chief executive of Sonera – until recently called Telecom Finland. "Ten to 20 years ago, we thought that having so many telecommunications providers was bad for efficiency. But, on the contrary, we found it was good for competition," he says.

While deregulation has cut costs for fixed line calls, the biggest boom has occurred in wireless services. Assuming growth continues at current rates, mobile phone penetration will equal that of fixed telephones by the end of 1999, according to research by Goldman Sachs.

In the past, some industry analysts suggested the mobile phone business would start to mature once penetration rates of about 30 per cent were reached. Such yardsticks mean little in Finland. Last year cellphone penetration jumped by 13 per cent and shows no sign of slowing.

Underpinning the vigorous growth is stiff competition between Sonera – which has about 60 per cent of the market for mobile services – and Radiolinja, a Finnish group which has about a one-third share.

Both are now facing a challenge from others, such as the Finnish subsidiary of Sweden's Telia, which launched GSM-standard digital services last year. A number of local telephone companies have also entered this market. Competitors are homing in on Sonera's business from all sides. Internet telephony and call-back operators are eating into the market for long distance and international calls, while others are clamouring for a slice of the fast-growing data communications market.

In order to meet this competition Sonera must invest heavily and tap new markets. Hence the Finnish government's decision to sell a 15-25 per cent stake in Sonera later this year, in an initial public offering expected to value the company at about $5bn.

The government lacks the resources to fund the investments Sonera may need to make in coming years. Moreover, the company believes a stock exchange listing is a prerequisite for participation in strategic deals.

"For us at Sonera, privatisation is all about getting our own currency – listed shares – to use when creating alliances," Mr Vennamo says. However, he is sceptical about a fully-fledged merger with another operator. "I don't believe that by putting two incumbent former public telecom providers together you get a more efficient one."

Given Sonera's strength in Finland (its overall market share is 54 per cent), opportunities for growth there are limited. Mr Vennamo acknowledges the potential for expansion will increasingly be in foreign markets.

Sonera is already active in this field, co-owning mobile service operators in Estonia and Latvia. Last month it bought Cable & Wireless's 63 per cent stake in Lattelekom, the Latvian national operator, and purchased a 30 per cent holding in Lietuvos Telekomas, Lithuania's national telecoms operator. "Of course we understand we cannot be a network operator all over the world," says Mr Vennamo. But he believes Sonera can become an important international supplier of telecoms services and network applications, particularly in the wireless-internet field.

This represents new territory for a traditional network operator. But Mr Vennamo is confident that as data, voice and wireless services converge, Sonera's Finnish base provides a firm platform for foreign success.

SHIPBUILDING • by Tim Burt

Bobbing back up from the depths

Concentration on niche areas leads to renaissance within the industry

The bow of the MS Paradise, a 70,400-tonne cruise liner, dominates the view from the Helsinki offices of Kvaerner Masa-Yards.

The ship, ordered by Carnival Cruise Lines of the US, is the latest of the so-called Fantasy Class vessels to be completed at the city centre shipyard, employing more than 4,000 workers and boasting an order book worth about FM19bn.

Work on such liners underlines the renaissance of shipbuilding in Finland, which suffered a near death experience in the late 1980s, following the collapse and bankruptcy of Wärtsilä Marine Industries - since rescued and renamed Masa Yards.

In the early 1990s, the survival of the industry was put in further doubt by lacklustre results and cost overruns at Finnyards, Masa's main competitor located in Rauma in south west Finland.

Since then, both companies have aggressively cut costs, sharply reduced manpower and focused on niche areas of the shipping industry.

In Masa's case, that meant focusing on cruise liners, liquid natural gas carriers and icebreakers. For Finnyards, it was the development of large new high-speed ferries for Stena Line, the world's largest ferry operator.

More importantly, new industrial owners rescued both companies. In 1991, Kvaerner of Norway bought Masa-Yards for NKr700m. Last year Aker Maritime, the Norwegian offshore engineering company, took a 60 per cent stake in Finnyards for FM95m.

"On their own, the prospects looked doubtful. But the Norwegians have effectively safeguarded their future by providing strong balance sheet backing and the possibility of exchanging technology and orders with their existing yards," according to one shipping analyst in London.

Becoming part of Kvaerner's 18-yard portfolio, which has generated demand for specialist offshore supply vessels for the oil industry, has certainly strengthened Masa-Yards.

Finnyards, formerly owned by forestry group UPM-Kymmene, has become one of a 10-yard group with a strong presence in the offshore industry within Aker.

Martin Saarikangas, the Finnish industrialist whom Masa is named after, says the revival of such shipbuilders has had benefits extending beyond the yards.

"Twenty years ago there were five shipbuilding groups in Finland. Now we have two, but they both have critical mass that supports a big sub-contractor industry," he says.

Helsinki's new shipyard, Kvaerner Masa's flagship, supports about 4,500 subcontractors and has out-sourced all non-core shipbuilding activities, including manufacturing galleys, entertainment centres and even entire cabins for cruise liners.

Mr Saarikangas has also been credited with rebuilding the order book at the company's new Turku shipyard, the largest in the Kvaerner group. The yard is currently constructing the world's largest cruise liner – Project Eagle – for Royal Caribbean Cruises of the US.

But some critics believe he has been too brutal, cutting the workforce by a third. One rival says he conducts business with all the tact of an ice hockey player. But his efforts have sufficiently impressed Kvaerner for the company to appoint him president of the shipbuilding division, responsible for yards from Philadelphia to Vyborg in Russia.

"Running a shipyard is like being in a sports team," says Mr Saarikangas. "When you start to feel comfortable then you are not on top form. You have to be rough in business to get results."

Kari Airaksinen, president of Aker Finnyards, echoes that view. He authorised a heavy restructuring programme after the company made a loss of FM500m on new HSS ferries manufactured for Stena Line.

"We have reduced fixed costs, outsourced everything that is non core and cut the total workforce by about 500 to 1,200," he says. "In 1998, we will run a profit."

Finnyards, by comparison, accumulated losses of FM600m between 1994 and 1996, in spite of achieving annual sales of FM1.3bn.

Although volumes are expected to grow healthily at both companies this year, they may find it a challenge to improve margins at a time when overcapacity in international shipbuilding and intense competition is encouraging rivals to reduce prices.

Given that challenge, Mr Saarikangas believes Finnish yards must set themselves apart by concentrating on niche areas, where low cost Asian rivals do not have the technical expertise or prospective volumes to mount a serious challenge.

"What we have done in this country is to build competence in a niche not big enough to attract Far East competition," he says. "It has been a difficult task and we are not finished yet"

Work on new cruise liners underlines the renaissance of shipbuilding in Finland, which suffered a near death experience in the late 1980s

Martin Saarikangas: credited with rebuilding the order book

PROFILE Raisio

Benecol's spread of riches

Corporate success stories do not come much better than Raisio.

Until a couple of years ago, few outside Finland had heard of the west coast food and chemicals company. Sales were sluggish, profits falling and the share price stagnant.

What has happened since is every chief executive's secret dream. The discovery and launch of a revolutionary new margarine – Benecol – scientifically proven to cut cholesterol without known side-effects, has transformed Raisio into the hottest stock on the Finnish stock exchange.

The company's scientists had been trying since 1989 to develop a cholesterol-busting food product from plant-based sterols, known to have cholesterol-blocking properties.

The resulting substance, stanol ester, was shown by clinical trials to cut levels of harmful cholesterol in the blood by up to 15 per cent when added to margarine.

When Benecol was launched in Finland, early in 1996, it sold out quickly, even though it cost seven times more than ordinary margarine. It took Raisio almost a year to be able to produce enough stanol ester to satisfy demand.

As talk of "miracle margarine" began to filter out of Finland, Raisio's slumbering share price jumped. It has risen 16-fold since Benecol's launch, helped by a surge in foreign ownership. Overseas investors held 10 per cent of the shares at the start of 1996. Today the proportion is 63 per cent.

Benecol's potential to become an international "nutriceutical" blockbuster prompted a flood of calls to Raisio headquarters from the world's largest food and consumer products groups. A battle for international marketing and distribution rights for the margarine was eventually won by Johnson & Johnson (J & J) of the US.

For Tor Bergman, Raisio's deputy chief executive and head of the Benecol division, it has been a remarkable journey. "We didn't have any idea of the magnitude of what would happen when we launched Benecol," he says.

"We thought there might be global demand [for Benecol], but the kind of reaction we saw was amazing."

Benecol's emergence has heaped expectations on Raisio and strained its organisation.

Substantial managerial retuning has been needed to enable the company to meet the standards of transparency and accessibility required by big overseas investors.

But the work is only just beginning. Benecol is currently available only in Finland, where it has taken a 12.5 per cent market share.

The long-awaited international roll-out has yet to begin, although the first step is expected by the end of this year, when Benecol launches in the US.

The potential is vast. In the US alone, some 100m people are estimated to suffer from high cholesterol.

Moreover, stanol ester can be used in virtually any product containing fat. J&J intends to introduce a family of Benecol products and likely alternatives include salad dressing, yoghurt, cooking oil and snacks.

Meeting demand will once again pose a stiff production challenge for Raisio. The company is already running at full tilt to guarantee sufficient supplies of plant sterols, a by-product of wood or vegetable pulping, and the key raw material from which stanol ester is refined.

Four new sterol plants, one in the US, one in France, one in Chile and a second Finnish factory, have been built or are under construction, reflecting Raisio's determination to avoid the bottlenecks that plagued Benecol's Finland launch.

Nevertheless, a question mark still hangs over whether supplies will be able to keep pace with demand when Benecol launches internationally.

By the company's own projections, it will be able to produce enough stanol ester production for the needs of 200m people by 1999. However, the US alone has a population of 270m and Mr Bergman is already hinting at a European introduction next year.

Uncertainty also hangs over the J&J agreement. No financial details have been disclosed, other than that J&J is to pay royalties on Benecol revenues as well as lump sum payments based on sales targets.

It is unclear how Raisio would extricate itself from the joint venture were differences to emerge with J&J or were Raisio to want to branch out by itself at a future date.

While many analysts, such as Michael Finney of Dresdner Kleinwort Benson in London, enthuse over Benecol's prospects, others are more cautious.

"One has to ask whether the reality will be able to match the expectations," says Ilkka Laukkonen, partner at PCA Corporate Finance in Helsinki. "There is a lot of air in the bubble."

He believes the exclusive global agreement with J&J increases Raisio's vulnerability. "How wise is it to put all your eggs in one basket? Raisio signed the licensing agreement very early on, before it had the capacity to produce sufficient quantities of Benecol and before, perhaps, it studied each market enough."

Mr Laukonnen believes, for instance, that it would have been preferable for Raisio to link up with a large domestic trading house in the big Japanese market, where the J&J brand is much less known than in North America and Europe.

Mr Bergman insists he is happy with the terms of the J&J co-operation, describing the venture as "not just a licensing agreement.

We see it as a marriage". While Raisio is the exclusive supplier of stanol ester to J&J, the two companies will work in tandem in product development and manufacturing.

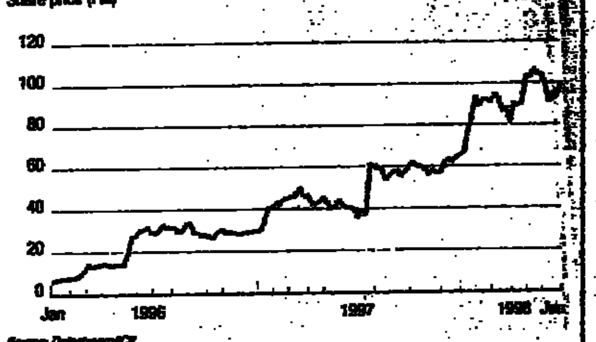
In any case, Mr Bergman says, Raisio simply could not have gone it alone internationally. "It did not take us long to realise we could not conquer the world alone."

One significant advantage of teaming up with a company as large as J&J is the ability to reach a wide range of markets quickly. And time certainly is of the essence. Stakes are high in the emergent nutriceuticals market and several big multinationals, among them Unilever, have announced plans to launch rivals to Benecol.

Mr Bergman is unperturbed. "We have a time advantage of at least one-and-a-half to two years," he says, adding that Benecol patents will run for 15-20 years. "We are sleeping well at night."

Greg McIvor

Raisio
Share price (FM)



Source: Datastream/ICV

Raisio: company profile

	Sales FMk bn	EBIT* FMk m	EBIT margin %
December 1995	3.2	183	5.7
December 1996	3.9	196	5.0
December 1997	4.9	246	5.0
December 1998 (est)	5.9	944	16.1
December 1999 (est)	7.7	2,420	31.5

* Earnings before interest and taxation

Source: SBC Warburg Dillon Read

The launch of Benecol margarine has transformed Raisio into the hottest stock on the Finnish stock exchange

Photo: AP

FORESTRY • by Greg McIvor

The case for pulp fusion

A whirlwind of consolidation has taken the industry to the top of the tree

Seldom, if ever, has Finland's pulp and paper industry been in better shape than today. Investment in ultra-modern production plants, coupled with a spurt of mergers and acquisitions and a gradual retuning of balance sheets through the 1990s, has made the leading groups the envy of rivals around the world.

Progress has been dramatic. Fifteen years ago Finland had 20 domestic producers. A whirlwind of consolidation has reduced the field to three: UPM-Kymmene, Enso and Metsä-Serla. All are today among the five biggest European five paper and board manufacturers in terms of production capacity.

"As an industry we are healthier than we have been for a long, long time," declares Martin Granholm, UPM-Kymmene executive vice-president. This is partly due to the beneficial impact of a strong US dollar on paper prices. But Mr Granholm stresses that underlying operations have also been strengthened by the Finns' readiness to merge and to embrace new technology.

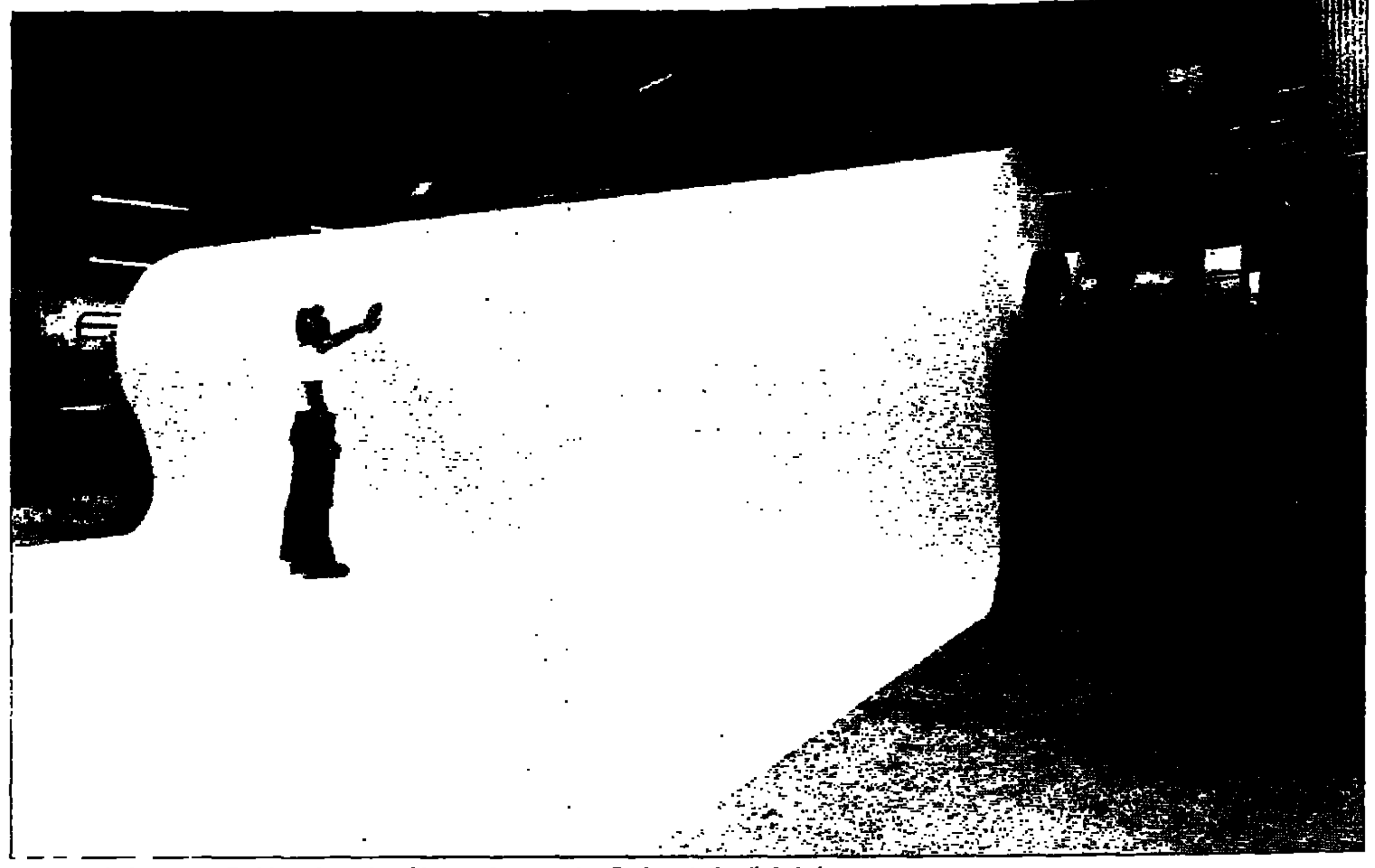
Of all the alliances and acquisitions – in Finland and abroad – none caused a stir quite like the merger unveiled by Enso and Stora of Sweden last month. The deal, creating a company with a combined market value of more than $9bn, is by far the biggest ever seen in the sector.

Stora Enso – as the enlarged group is to be called – succeeds International Paper of the US as the world's biggest paper and board producer, with annual capacity of 13m tonnes. In Finland, it becomes the dominant player in a sector which contributes one-third of the country's export revenues.

The tie-up, the first big industrial merger between a Finnish and Swedish company, adds a cross-border dimension to the largely national consolidation seen so far. Many analysts view the deal as a milestone in a restructuring process that they believe will spawn a small nucleus of giant manufacturers with genuine global presence.

To outsiders, the deal enhanced Finland's status as a leading forestry nation. But reaction in Finland itself has been mixed. Opposition politicians accused the government – which owns a 47 per cent stake in Enso – of ceding control of one of the state's corporate crown jewels to Swedish interests, complaining that the option of a domestic tie-up was not fully explored.

This is a bit harsh. The Finnish state's holding in the enlarged company will be diluted to 21 per cent when the merger is completed, but the government will nevertheless be the largest shareholder by some distance. Moreover, the group will be domiciled in Finland, where it will have its main stock exchange listing, and be run by Jukka Härmälä, Enso's chief executive.



Rolling out the investment: Finnish producers have bigger and more modern fixed assets than their rivals

Jukka Härmälä: making no secret of his intentions

In any case, the political criticism misses the point. Pulp and paper makers can no longer afford to think parochially if they want to carve out a viable future in an increasingly global market. In this respect, merging with a Swedish group was preferable to a domestic solution. As Mr Härmälä puts it: "Our customers are becoming more and more global, and they expect us to be there to serve them."

UPM-Kymmene realised this several years ago when Kymmene and Repola came together with the aim of creating a group large enough to compete on the global stage. But, as industry officials are quick to point out, a single deal is not enough; in a rapidly integrating industry, companies must continually hunt for fresh opportunities if they are not to fall behind.

UPM-Kymmene knows this. In the past year it has created the world's biggest alliance for the production of fine paper – used for copying, writing and upmarket publications – with Asia Pacific Resources International of Singapore.

Then followed the $650m acquisition of Blandin Paper, the US paper-making subsidiary of Fletcher Challenge of New Zealand.

Even so, these deals have not prevented UPM-Kymmene from slipping from second to fourth place in the league table of the world's largest producers during the past two months. Many expect the Stora deal to act as a spur to UPM-Kymmene's search for acquisitions in North America and beyond.

Mr Härmälä knows that Enso, too, must be fleet-footed if it is to retain its elite status. He makes no secret of his intention to pursue acquisitions or joint ventures in south-east Asia, seen as the most promising international growth market. "We have about 4 per cent of the world market.

This should be somewhat higher," he asserts. The readiness of the Finns to consolidate has paid dividends. Together, the big three had a combined operating margin of 11.9 per cent last year in a sector where many others struggled to achieve half that figure.

A prime factor is a long-standing commitment to invest in state-of-the-art machinery. The three Finnish groups have spent heavily in recent years on upgrading facilities and building new plants capable of producing huge volumes of paper products.

UPM-Kymmene's LWC (lightweight coated) magazine paper mill in Rauma, Finland, is the biggest in the world after the recent start-up of a new machine. Annual capacity is 1.15m tonnes. Such size allows companies to achieve economies of scale industry executives could only dream of a decade ago. Instead of producing multiple grades, mills can specialise on one particular product and tailor production to individual customers' needs.

Finnish companies today have, on average, bigger and more modern fixed assets than their big Scandinavian and North American competitors. "Technically, Finnish forestry is probably the world leader today," says Niilo Lëllonmaa, chief executive of Jaakko Pöyry, the international forestry consultancy.

But the ability to make such investments depends largely on size. The larger the company and its balance sheet, the greater its capacity to finance a large new mill and then exploit its potential.

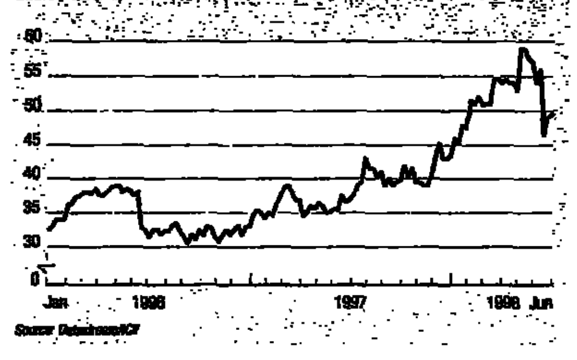
This is a question facing Metsä-Serla, the country's third producer. Company officials would not admit it publicly, but Metsä risks falling behind the big groups unless it can pull off a sizeable structural deal. "Like all the smaller players, Metsä will be feeling more exposed after the Stora Enso deal," says one London-based paper and pulp analyst.

Metsä, which a few months ago had a merger offer rebuffed by Enso, has most recently been linked with Södra, the Swedish pulp producer with which it is bidding to build a big new pulp mill in Latvia.

Whether Metsä would be best served by coalescing with a group focused on just one – and deeply cyclical – product may be doubtful. But as it and its rivals consider their options, one thing is certain: the restructuring wave is set to roll and roll.

FINNAIR • by Tim Burt

Trying to keep up with the neighours



Finnair, the state-controlled Finnish flag carrier, has responded to the most intense competition in its 75-year history by launching a sweeping cost-improvement programme and forging alliances with a host of European partners.

The move reflects some alarm at the airline – 58 per cent owned by the government – at the success of competitors led by Scandinavian Airlines System in capturing a greater share of international traffic serving Finland.

In an attempt to wrestle back the initiative, Finnair last year unveiled "Programme-2", a restructuring plan aimed at increasing profits by FM500m by 2000, and announced that it was negotiating a code-sharing partnership with British Airways.

At the same time, it has pushed ahead with a FM2.2bn fleet renewal programme and reacted to SAS's challenge by developing Stockholm's Arlanda airport as a Finnair hub serving European destinations

Antti Potila, Finnair's veteran chief executive, claims the strategy will help protect the carrier against increasing competition in the industry.

"Competition must be taken seriously but we have reason for faith in our own opportunities," he says.

Although Finnair remains the dominant carrier in its home market, there is a growing suspicion that it may have to contemplate a more radical change of course to match SAS.

Given that it is only a third of the size of SAS, Finnair will always be at a disadvantage in terms of offering flight frequency and capacity around the Nordic region. So it will have to differentiate itself by providing improved services, cutting costs further and offering better frequent flier programmes.

That effort was not helped when Lufthansa, its former partner, joined forces with arch-rival SAS to form the six-carrier Star alliance. That broad-based deal has so far proved more developed and extensive than Finnair's fledgling alliance with BA or its links with 13 other carriers.

"Seeing SAS and Lufthansa together against us meant we needed to find somebody with whom we could build a group to meet this challenge," says Mr Potila, who is retiring at the end of this year. "All the major airlines in Europe approached us, and we selected BA." But analysts in Helsinki recognise the UK carrier is more concerned with securing its alliance with American Airlines than developing a relationship with Finnair.

Nevertheless, the partnership has been an important symbolic boost for the Finnish carrier after a year in which passenger volumes rose 12.5 per cent and pre-tax profits rose from FM310.4m to FM626.7m.

The challenge now will be to transform rising passenger and cargo volumes into higher margin profits. Finnair's cost base is already lower than those of rivals, and Mr Potila expects yields will benefit from more efficient use of capacity and improved customer services.

Announcing the carrier's full year results last month, he said that the Programme-2 restructuring had already exceeded its productivity targets and there had been improvements in return on capital and distribution costs.

The question is whether the programme will be enough to ensure Finnair's continued prosperity. On its own, it will almost certainly not provide sufficient protection against increased competition.

One solution could be for Finnair to find a partner – ideally a carrier as strong as BA – to take a more strategic interest in its future direction. Such a move would probably have to involve the acquisition of a stake in the airline – something that the government has not ruled out.

Senior Finnish ministers admit that the state is unlikely to retain a majority shareholding in the long term.

Any decision on the timing of the privatisation will not be made before next year's elections, but the state is expected to sharply reduce its stake during the following four-year parliament.

If it does so, Finnair will enjoy increased stock market liquidity and improved access to capital. The airline, which has one of the strongest balance sheets of any European carrier, does not need a cash injection to remain competitive.

But before long it will have to decide whether to invest heavily in replacing its MD-11 long haul aircraft, and whether to extend its existing order for 12 Airbus A320 jets by confirming options for another 24 short-haul aircraft.

The airline may also want to reconsider its charter and leisure operations. Most large scheduled carriers have withdrawn from that cut-throat sector, leaving it to the tour operators to fight it out.

Mr Potila acknowledges competition has grown in this area, but says leisure traffic remains crucial to Finnair for the time being.

The airline however, has shown its readiness in the past to shed non-core operations, withdrawing last year from the hotels business. It has also adapted to changing traffic requirements by merging its two domestic subsidiaries and increasing its marketing investments.

That is all well and good. But Finnair also faces a problem in that its existing capacity on many routes is fully utilised, and it is difficult to exploit rising passenger demand without runway slots for services. The development of new runways at Helsinki's Vantaa airport and Stockholm's Arlanda should address that issue, but the benefits may not be visible until the turn of the century.

Mr Potila, the longest serving airline chief executive in Europe, is nevertheless confident that Finnair can emerge from the turbulence shaking the industry as one of the best-performing medium-size carriers.

"In spite of doubts expressed over the years, Finnair has arrived at its 75th anniversary with operational strength and in good economic health," he says. "I am optimistic about the future – there are many more new possibilities than threats."

Tim Burt and Paavo Lipponen discuss the government's economic record

Staying on a steady course

Paavo Lipponen is modest about his record as Finnish prime minister, and sets out the achievements of his administration only after a long pause and careful consideration.

Sitting in his parliamentary office, with no officials or party spin doctors around him, the Social Democrat leader makes clear that he is satisfied – but by no means finished – with the management of the economy and developing Finland's role in the European Union.

Those two issues – spanning such thorny areas as unemployment and taxation to EU enlargement and the introduction of the euro – are likely to form the centrepiece of Mr Lipponen's re-election campaign.

While understandably reluctant to predict the winners and losers of next year's election, he admits coyly: "According to opinion polls we have a good position to go for victory in the election, so our situation has improved since last autumn."

The former political scientist and journalist believes that the party's revival in the polls reflects public satisfaction at Finland's economic well being.

"We are now rapidly reducing our general government debt in terms of share of GNP. In 2000 general government debt will have gone down to 50 per cent or below," he says.

"I'd like to point out that growth came to a total halt in the Finnish economy at the end of 1995. So only after we had managed to stabilise the economy, did we get sustainable growth that is both export-led and domestic market growth."

He emphasises that unemployment, though still a worry, is coming down. Inflationary pressures have yet to emerge, and the social partnership between government, employers and unions has so far helped contain wage growth.

Political analysts in Helsinki agree that Mr Lipponen, in close co-operation with finance minister Sauli Niinistö, has done a pretty good job on the economy.

But they point out that the Centre party has landed some effective punches by exploiting euro-scepticism in many parts of the country and questioning the prime minister's enthusiasm for closer ties with Brussels.

Given that Finland will assume the presidency of the European Union next summer, Mr Lipponen is ready to underline his credentials as a champion of the interests of smaller EU states and an ardent supporter of enlargement and reform of EU institutions.

"We clearly gain more influence by sitting at the table and taking part in the pace of EU integration and in the internal market," he adds. "In the next election, we will be able to show that we have been able to draw benefits from our [EU] membership."

Mr Lipponen intends to fight that election as a Social Democrat rather than as a coalition leader. As such, he has refused to discuss any common platforms with prospective partners ahead of the poll – and is particularly scathing about overtures from the Centre party.

"By proposing negotiations before the election, they are trying to get off the hook on the question of presenting their own alternative. So will they have the guts to stick to their own alternative?"

While cautious and rather ponderous about the government's own policy positions, Mr Lipponen is pretty vocal about the shortcomings of the opposition. He describes the Centre party's position on Europe as a cul-de-sac, in which it is trying to exploit nationalist reservations on issues ranging from overseas ownership of Finnish companies to bilateral ties with Germany.

"In spite of their antipathy, I think they will very quickly fall into line with existing policies when we take over the EU presidency," he says.

Mr Lipponen also shrugs off criticism of his domestic policy record, particularly opposition charges that he has failed to address structurally high unemployment or demands for lower income taxes.

The prime minister admits that double-digit jobless levels remain a serious problem, but he contends that unemployment in Finland will fall below the European average of 10 per cent next year. At the same time, he has vowed to address issues such as skill shortages in parts of the economy.

Mr Lipponen, mindful of the Social Democrats' traditional left-of-centre supporters, also says that the government has a duty to guarantee the future of basic social services and welfare in Finland. But it will not do so by relaxing its tight rein on public spending, which saw the government propose cuts of FM20bn at the time of the last election.

"For the next period, we have to find a balance between the following goals: to develop a surplus in the central government finances; to continue with the reduction of wage taxes; and to secure basic services at local government level."

He has also made clear that the government is ready to consider reducing its holdings in parts of industry. Mr Lipponen would like to reinvest the proceeds to finance a programme of raising state research and development spending to 2.9 per cent of GNP by next year.

The wedding of Paavo Lipponen to Päivi Hertzberg last January was the first by an incumbent Finnish prime minister since the country gained independence in 1917 Photo: AP

It is a difficult balancing act, but one that Mr Lipponen has pulled off expertly. So far, his cross-party coalition has backed him on such broad policy aims, in spite of occasional tiffs over issues such as appointments to the central bank board.

The prime minister, who assumed the leadership of the SDP in 1994 and the premiership a year later, clearly believes that his record bears careful examination.

There is no future for Finland, he says, in changing political course. "The main danger of the SDP not being in government is losing track on the economy, which has been going so well."

Esko Aho: more of a Euro-sceptic than the prime minister

ELECTION '99 • by Tim Burt

Helsinki's clash of the giants looms

Result could be tightest for some time and consensus will triumph

The campaign ahead of next year's general election in Finland is likely to be dominated by a "clash of the giants" in Helsinki, where the leaders of the country's three largest political parties plan to contest the same constituency.

Prime minister Paavo Lipponen, who hopes to form a centrist coalition following the poll in March, is facing a twin challenge in the capital from Esko Aho, the former prime minister and leader of the Centre party, and Sauli Niinistö, the current finance minister and Conservative party leader.

While the election will not be won or lost in Helsinki, the result could influence the shape of the next government – which will almost certainly be another coalition.

In the pre-campaign posturing, Mr Aho has raised the prospect of seeking an alliance with two smaller opposition groups – the centrist Christian Democrats and the conservative Young Finns – to unseat the sitting five party coalition.

The former prime minister has also signalled a possible accommodation with Mr Niinistö's party. Last month he sided with the Conservatives to force through the appointment of Matti Vanhala, a director of the Bank of Finland, as the new governor of the central bank.

Mr Lipponen's Social Democrats had nominated Jukka Pekkarinen, a left-of-centre economist to the bank board to fill the slot vacated by Mr Vanhala. But they had to back down in the face of concerted opposition by the Conservatives and Centre. The messy affair persuaded some political analysts to begin writing Mr Lipponen's political obituary.

But while signs of tension certainly exist between the premier and his finance minister, it would be premature and dangerous to write-off the current coalition.

Indeed, Mr Lipponen has responded in combative form to Mr Aho's charge that his policies have saddled Finland with unsustainable welfare costs, high personal taxation and structural unemployment.

He maintains that Finland can look forward to the millennium with one of the healthiest economies in western Europe. Inflation is low, growth solid and taxes falling – albeit modestly. Given that the Centre party earlier this year suggested exploring a common platform with the Social Democrats, Mr Lipponen is also sceptical of a possible Centre-Conservative axis.

He believes that Mr Aho is using the idea of a possible electoral deal as a screen to avoid clearly setting out his party's policy intentions.

"We have made cuts in income taxes that have eliminated the tax hikes of the last government, and next year income taxes will be cut by this government," says Mr Lipponen. "So what is the Centre alternative?"

Mr Aho, who is fighting a Helsinki seat for the first time, can be equally hard hitting. Dismissing Mr Lipponen's claim to economic prudence, he says his election campaign will address four main issues: structural reforms of the labour market, including social security and taxation; national ownership of Finnish industry; social dislocation cause by migration from rural areas to cities; and perhaps most importantly, European economic and monetary union.

Although he recognises that the government cannot pull back from the single currency or globalisation trend in industry, Mr Aho wants to raise Finnish interests and remains more of a Euro-sceptic than the prime minister.

"We know that when you lose control of your own affairs, whether in monetary union or ownership of industry, you also surrender the possibility of controlling your destiny," he adds. "There is no possibility of changing the decision to join EMU, so now we must concentrate on reforms to help us live with it."

Amid the war of words, Mr Niinistö has seen his rating rise in the polls. And the Conservatives could become the king-makers in partnership with either Mr Aho or Mr Lipponen.

In a message aimed partly at soothing financial markets, the Conservative leader makes plain that there will be few vote-winning spending increases or tax cuts ahead of the election.

"We are proceeding with an economic policy with gradual tax cuts while keeping a tight rein on public spending. We have to increase the emphasis on saving money, and we now have to think how we can tighten fiscal policy," he says.

In spite of the differing political views of Mr Niinistö and Mr Lipponen, most Finns recognise that it has been a competent double act. And Social Democrat officials hope that the prime minister's efforts to tackle unemployment and raise Finland's profile in the European Union will be rewarded with a second term.

Recent opinion polls suggest they may get what they want. In a May poll, the SDP caught up with the Centre Party after several months of lagging behind. Although the poll gave Mr Lipponen's party 24.1 per cent of the vote – against 23.9 per cent for the Centre – it remains some way behind its commanding 28.3 per cent showing at the 1995 election.

All three party leaders agree on one thing. No single party will win enough seats to form an outright majority government: the result will be followed by political horse trading as the new coalition takes shape.

Mr Lipponen, whose personal rating trails Mr Niinistö in Helsinki, says: "After the next election there will be negotiations on the next government's programme, and we'll put together a common platform."

Mr Aho, of course, concedes no such thing. "The initiative will be with the party winning the biggest vote. I fully expect that to be the Centre."

The result, therefore, could be one of the tightest and most open Finnish elections for some time.

One thing is certain and that is consensus will triumph. Whichever party leader emerges as the next prime minister, he is likely to be constrained from any dramatic moves by his coalition partners.

Finland: state of the political parties

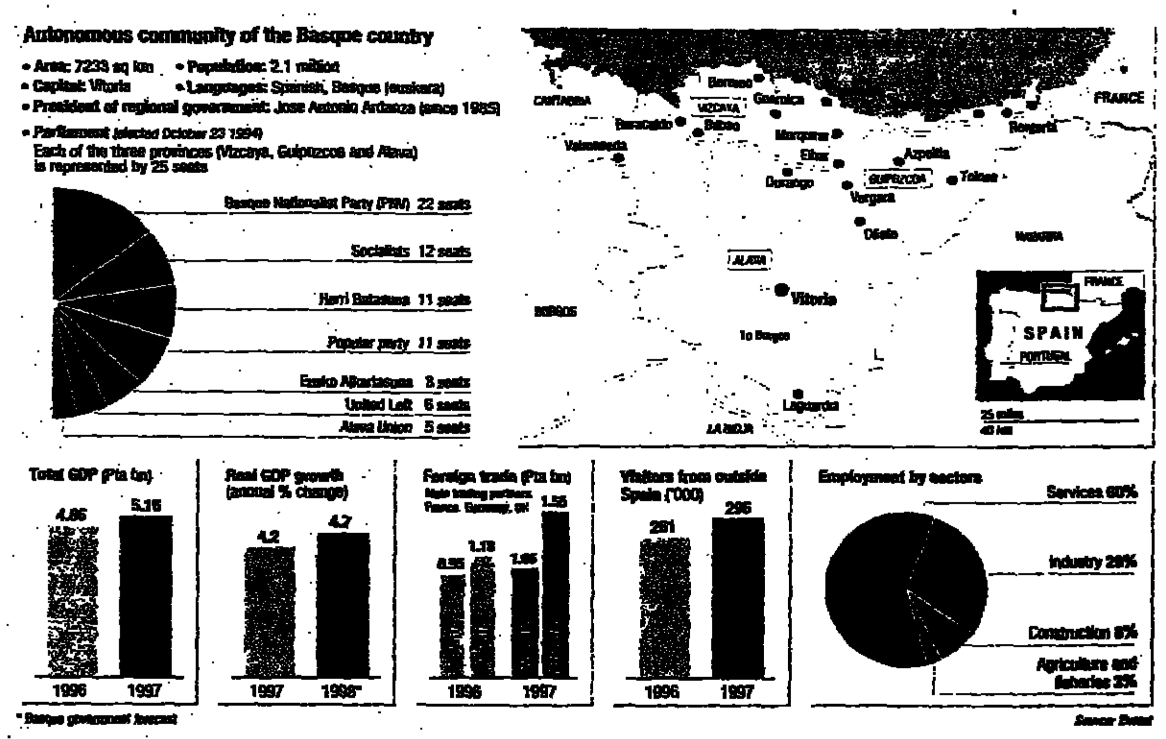
	1998 monthly survey[1]			Election	
	May	April	Mar	1996	95
SDP	24.1	22.9	22.8	24.5	28.3
Centre Party	23.9	24.7	23.9	21.8	19.8
Conservatives	19.9	19.8	20.1	21.6	17.9
Green Party	9.8	10.1	9.5	6.3	6.5
Leftist Alliance	7.0	7.7	8.3	10.4	11.2
Swedish Party	4.5	4.6	5.0	5.5	5.1
Christian League	3.8	3.2	3.5	3.2	3.0
Young Finns	3.6	2.9	3.2	1.3	2.8
Perussuomalaiset	0.8	1.5	1.2	0.9	1.3

1. Monthly survey made for Finnish radio news by polling institute Taloustutkimus between May 5 and June 2. It surveyed 1,500 people. Parliamentary elections are due in March 1999
Source: Reuters

Basque Country

The region is regaining its vitality and an air of optimism is setting the tone. This may be because many Basques show signs of wearying of political arguments. **David White** reports

Resuming its role as the industrial motor



Like the stone-lifters in the region's famous rural games, the Basque Country pulls a lot of weight for its size.

This can be said of the part that Basques have played on the wider stage of Spain and its former New World conquests. It can be said, too, of the region's vitality and capacity for innovation, and its role as the nation's industrial motor, which it seemed to have lost but is now vigorously regaining. And, less fortunately, it is true of the political argument and the anguish it generates.

In Spain's devolved administrative system, the three small provinces making up the Basque region, with a population of 2.1m, enjoy a larger measure of self-government than any other part of the country. The Basque authorities not only run areas such as education and health, their own police force and television channels, but also raise and manage all their taxes.

But more than 18 years of autonomy, with increasing powers for its government, have failed to normalise the region's conflictive politics, still overshadowed by the terrorism of Eta separatists.

"I register the fact," says José Antonio Ardanza, the Basque regional president, who is standing down at this October's regional elections after more than 13 years. "It's everybody's failure."

The snug, wooded valleys of the Basque Country, its great solid farmhouses, its manufacturing towns with their serried apartment blocks, its close-knit fishing communities and its tough, hard-working, straight-talking people make up one of the most distinctive corners of Europe.

The sense of difference is thickly spread, its emblems being a rich folklore and the ancient and unfathomable Basque language, nowadays standardised and taught in schools either as a set subject or a main teaching vehicle.

An arm's-length relationship with central Spanish rule is a tradition established since feudal times. But Basque nationalism as a political movement is a phenomenon of the past 100 years, coinciding with big waves of immigration into the region, which also became a strong base for Socialism.

With an ideology originally rooted in the distinction between "real" Basques and outsiders, the Basque Nationalist Party (PNV) rallied opinion behind the pursuit of home rule, particularly among the Bilbao middle class. Exercising a curious but powerful mix of myth and pragmatism, it plays a predominant role today as it did in the 1930s, when the region had its previous ephemeral experience of self-rule cut short by General Franco's troops.

It sits astride a fundamental ambiguity about its ultimate aim as regards sovereignty and the relationship with Spain. According to a Basque government opinion poll, half its voters are in two minds about independence. More than 20 per cent of PNV supporters and the Basque population as a whole are unreservedly in favour.

The core of the Basque problem is that the region's inhabitants do not share a common idea about their national identity. There are also different versions of where the Basque Country begins and ends. Nationalists see it extending to the larger, partly-Basque territory of Navarre, which is a separate region, and the more bucolic French Basque Country, three tiny historic provinces long since absorbed into the department of Pyrénées-Atlantiques.

This is not the only region of western Europe with a strong nationalist movement founded on a language area. But the whole debate about the Basque Country's future status is distorted by the additional factor of terrorism, which tends to set the political agenda.

Eta, which first turned to violence 30 years ago, has had its operational capability in Spain reduced, with perhaps a few dozen front-line people in place at any one time. But despite police crackdowns on both sides of the French-Spanish border, it has been able to maintain its impact by means of intermittent, targeted attacks.

The sector of opinion from which it draws its support, angrily dismissed as "rubbish" by José Maria Aznar, the Spanish prime minister, still makes up a significant minority.

Eta's political ally, Herri Batasuna (People's Unity), took 16 per cent of the ballot in the last regional election four years ago and was the party with most votes in Guipúzcoa, the province bordering France and including the resort of San Sebastián. Marginalised youth is mobilised for the radical cause. Sabotage of banks, post offices, buses and party premises by organised gangs has become commonplace. Other people have football hooliganism. Here it goes by the name of politics.

The images of terrorism and vandalism warp the rest of Spain's vision of the Basque country. Non-violent nationalists are suspected of using the violence as leverage to further their interests. There is an unbridged comprehension gap.

Basque society is much more integrated and complex than it is often given credit for. Its institutions function efficiently in comparison with other regions, even though the Basques have an additional layer of elected government – provincial as well as regional and municipal. They express much more satisfaction with their own various administrations than with Madrid.

The region has a strong and diverse press, with Spain's highest level of newspaper readership. According to the Eustat statistics office, it has the lowest indices of social inequality of any part of Spain. Regional security officials say the crime rate is actually lower than in the rest of the country or the European average.

The region has Spain's longest life expectancy. Educational levels are relatively high, and proportionally more is spent on research and development than anywhere in the country except Madrid, the bulk of it coming from the corporate sector.

And the region is surging. Growth last year was 4.2 per cent, well above an already strong performance in Spain as a whole. In the first quarter, it jumped to 5.6 per cent, and industrial output has been expanding at an annual rate of about 11 per cent.

Mr Ardanza says today's Basque Country has nothing in common with the "industrial cemetery" he surveyed when he took over the job in the mid-1980s.

Its mainstays had been steel and ships, and these were the biggest crisis victims. It had been the richest part of the country in per capita income; its chief industrial region since late in the last century. Industry made up almost half its economy. But by the 1990s, the share was reduced to 36 per cent.

In the 10 years from 1975, the year of Franco's death, the Basque Country lost 80,000 industrial jobs; one in four. For the first time in more than a century, more people started leaving the region than those arriving.

Helped by the special economic pact which gives it financial autonomy, it has managed to overcome the decline and renew its manufacturing base. Youth unemployment, which exceeded 50 per cent four years ago, is now 36 per cent.

With a dominant place in Spain in sectors such as machine tools, special steels and industrial electronics, it has resumed its leadership role. Exports were more than 30 per cent up last year. Regional authorities expect growth, now peaking, to average 3.4 per cent over the next five years.

It is this new optimism that sets the tone rather than the political arguments, of which many Basques show signs of wearying. For people in Bilbao, the sinuous titanium structure of the city's new Guggenheim modern art museum has provided the symbol of a new lease of life. They now see foreign tourists on the streets.

The jobless rate remains close to 19 per cent, and higher on the grim left bank of Bilbao's estuary, once its great source of wealth.

The region will rely largely on service activities for new jobs. Despite Bilbao's history as a banking centre, the service sector is relatively undersized. The years of violence have held back its development.

"Take away the terrorism," said one businessmen, echoing a widely expressed conviction, "and this place would go like a rocket."

THE ECONOMIC PACT • by David White

Source of friction with Madrid

More arguments are inevitable over Basque financial independence

When they return from their summer holidays, Basque wage-earners should find more in their pay packets. From next month, monthly tax deductions will start to be reduced, a foretaste of cuts which for the first time in modern Spain will give the Basques different income tax rates from the rest of the country.

Under a deal last year, the Basque regional authorities obtained powers to set their own rules for income tax. Rates are due to come down next year everywhere in Spain, but lower-paid employees in the Basque Country are set to benefit more than elsewhere.

This differentiation provides the clearest demonstration yet of Basque financial independence. Regional finance officials hope the move will help the Basque Country reduce wage pressures and increase the competitiveness of its labour. But, as with other initiatives in which the Basques have sought to make the most of their exceptional economic powers, the new plans are an inevitable source of friction with Madrid.

Already unhappy with regional tax breaks for new companies, the central government reacted angrily two years ago when the Basques undercut the standard Spanish rate of corporate tax, setting a 32.5 per cent rate instead of the standard 35 per cent. Fernando Olmos, finance chief of Vizcaya province, the economic power centre based on the city of Bilbao, sees the move as "the first manifestation of fiscal sovereignty since the (1936-39) Civil War".

The tax arrangements of the Basque Country and its more rural neighbour, Navarre, are distinct from all other Spanish regions and the envy of some, particularly Catalonia.

The distinction goes back to ancient *fueros* (privileges) recognised by Castile after it took over the Lordship of Vizcaya in the 14th century. These included exemption from Castilian taxes, in lieu of which "donations" were sent to the capital. The system lasted into the 19th century and the *fueros* were abolished in 1876. In compensation, the Basque provinces obtained a special economic agreement or *concierto*.

General Franco, in reprisal for the "treachery" of Vizcaya and its fellow Basque province of Guipúzcoa, scrapped the arrangement in 1937. But it was revived under the region's post-Franco home-rule statute.

The Basque authorities, unlike those in other regions, do not receive money raised by the central government, but collect and manage taxes themselves. Taxpayers fill in their returns not to the Spanish exchequer, but to the authorities of the individual province. Revenues are distributed between regional, local and provincial administrations, with an agreed cut going to Madrid as a contribution to the cost of centrally-run functions such as defence and foreign affairs.

Regional officials say this arrangement makes for greater efficiency and less evasion, bringing the tax authorities closer to the taxpayer and making them answerable for their own fiscal management. The Basque Country's budget is close to being in balance, with a deficit of just 0.3 per cent of gross domestic product last year and a forecast 0.1 per cent shortfall this year.

The *concierto* was revised last year. Under a 1996 political deal, which enabled Spain's Popular party (PP) government to count on support from the Basque Nationalist party, regional authorities gained full competence for setting income tax rates – on the condition that overall tax pressure remained "equivalent" to that in the rest of Spain.

They also obtained responsibility for the taxes they did not previously collect, on liquor, tobacco and fuel. The rates of these taxes, however, as with value-added tax, are set centrally. Mr Olmos says there would be no sense changing them because of European Union moves to harmonise rates. But he believes there will continue to be leeway on direct taxes.

A new standard arrangement for Spanish regions allocates a slice of income tax to regional governments and allows for a small variation in the overall rates charged. But the Basques have much more scope.

The region's income tax changes, Mr Olmos reckons, will cost Pta40bn a year, a tenth of current receipts. But with strong economic growth, he says, the impact should be absorbed in two or three years.

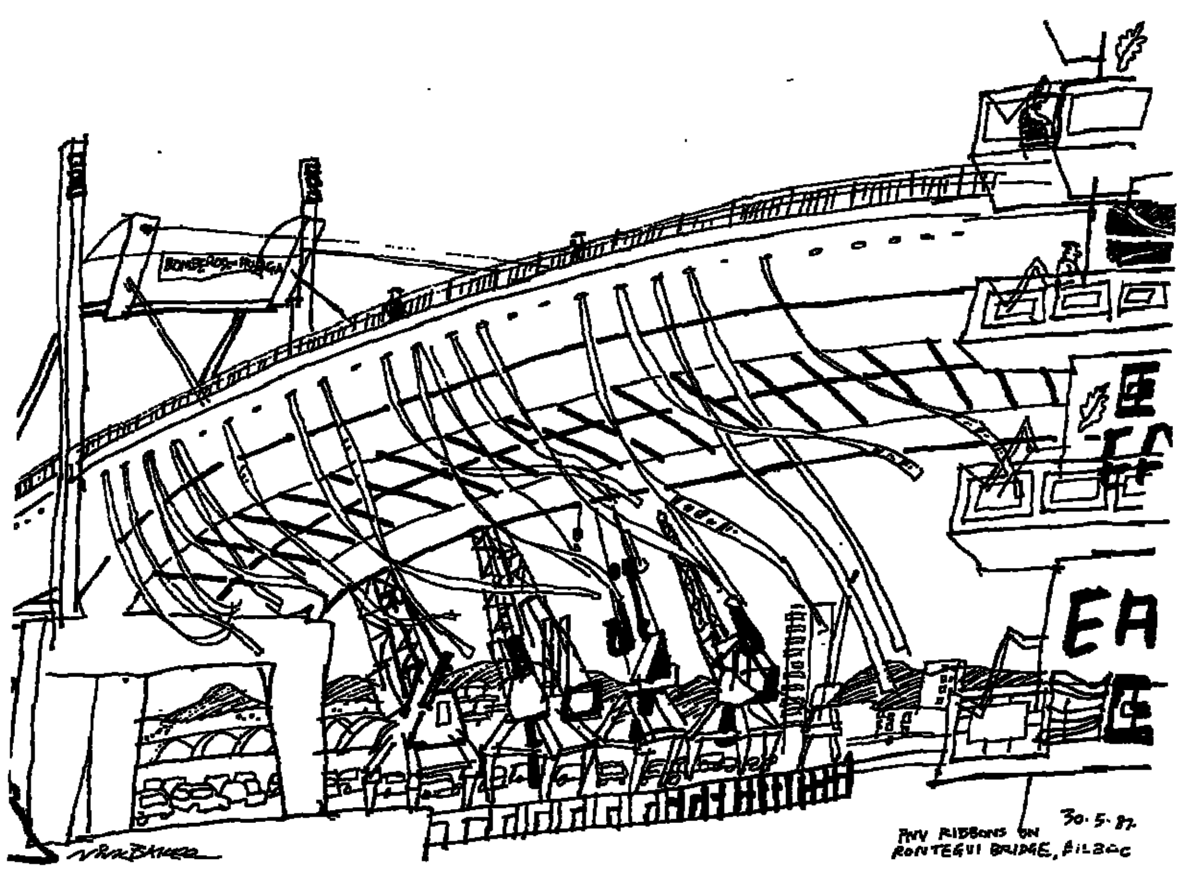
The changes coincide with Spanish government income tax reform. Both affect 1998 earnings, although the Basque authorities will start cutting their deductions in advance. The average reduction in tax bills – 10.5 per cent – is less than the 11 per cent offered at state level. But the Basque reform is seen as being more progressive, with a higher top marginal rate (50 per cent instead of 48 per cent, compared with the current 56 per cent) and a lower bottom rate (17 per cent against 18 per cent).

Different taxation is likely to continue causing friction with PP leaders in Madrid. The Spanish government tried to overturn the new Basque corporate tax, and then emulated Basque measures giving special treatment to small-company profits. With the existing economic *concierto* due to expire at the end of 2001, further arguments are in store.

INDUSTRY AND INVESTMENT • by Tom Burns

Heartland humming with activity

Industry has emerged from recession leaner and far more broadly based



It does not require a skilled eye to realise that the Basque Country is humming with activity. Container lorries dominate its roads and the manufacturing plants, strung out along its narrow valleys, appear to be firing on six cylinders. Only the lushly-wooded hills appear peaceful.

"When Spain goes well," says Carlos Aguirre, director-general of economy and planning at the Basque regional government, "the Basque Country goes better."

Spain going "well" is a frequently repeated buzz-word that was put into circulation by José María Aznar, the prime minister, when the domestic economy started growing strongly in the second half of 1996, shortly after he came to power.

It is incontrovertible that the Basque Country, Spain's industrial heartland, has been the main beneficiary of such economic expansion.

Average gross domestic product growth rose overall in Spain from 2.3 per cent in 1996 to 3.3 per cent last year. In the Basque Country, it moved from 2.2 per cent to 4.1 per cent. In the first quarter of this year, Spain's GDP grew year-on-year by 3.7 per cent. In the Basque Country, local GDP spurted to 5.6 per cent.

Buoyancy is particularly evident in the machine tool sector which has traditionally been the weathervane of the region's growth prospects.

"The sector had an average order book of three to four months last year," says José Guillermo Zubía, secretary-general of the Basque employers' confederation. "Its order books are now registering 18 months."

Corporations such as Guascor have emerged from nowhere in the past couple of years to become business success stories. Guascor, a family-owned company that specialised in manufacturing engines for shipping along the Biscay coast, was acquired in 1994 by a group of entrepreneurial engineers who had sold out Gamesa, their components business, and speedily built it up into a conglomerate in its own right.

Like Gamesa Guascor has invested in research and has imaginatively diversified away from core products in order to apply local manufacturing quality to a broad range of new business opportunities.

It is exporting mini oil-fired electricity generators, that it has developed, to isolated communities in Brazil; it has evolved new techniques to recycle used engine oil; it has fine-tuned waste management procedures to obtain gas from rubbish dumps; and it is due to start up the first of five plants in Spain that will transform pig excrement into electric power.

"We are constantly travelling, scouring the world for problems that we have the technical ability to solve," says Javier Górriz, Guascor's marketing director.

The approach is typical of the peculiar Basque mix of business vision and skills.

"Two things we have going for us are an exceptionally able labour force and first-class corporate leaders," says Alfonso Basagoiti, chairman of IBV, the corporation which owns Gamesa.

The Basque government also gets high praise from entrepreneurs. "It is close to the ground and understands business problems," says Mr Basagoiti. The local executive has made good use of the area's fiscal autonomy to improve communications and job-training programmes, to provide soft credit lines and to launch a series of initiatives such as a network of industrial parks and research and development centres.

"One of our main concerns is small and medium companies because they are the backbone of our economy," says Enrique Marco-Gardoqui, director-general of Spri, the Basque industrial development agency.

Spri funds consultancy fees for companies who want to reorganise their business strategy and has developed a versatile training course to improve management in some 3,000 small family-owned companies.

The chief feature of all the activity is that it is qualitatively and quantitatively different from previous economic growth cycles in the Basque Country.

Two severe bouts of recession, in the early 1980s and again a decade later, closed down some of the area's emblematic steel plants, capital goods manufacturers and shipyards, drastically scaled back others and directly affected almost half of the labour force in Bilbao's Vizcaya province. Basque industry has emerged leaner and, crucially, far more broadly based than in the past.

In place of large conglomerates mostly concentrated on Bilbao's river estuary, there is now a patchwork of companies spread out over the three Basque provinces.

Only 27 companies in the area employ more than 500, more than 1,000 have a staff of between 20 and 50 and there are more than 8,000 companies that have fewer than 20 employees. Steel transformation remains the main focus of Basque Country business but the electronic, information technology and industry-linked service sectors are growing rapidly.

"We have all become very much more competitive in the process," says Pedro Abasolo, a senior Bilbao industrialist who is chairman of the engineering and capital goods group Mecánica de la Peña and of the steel producer Tubos Reunidos, two large local companies that export the bulk of their output.

Mecánica now outsources 80 per cent of its business and, with an unchanged labour force of 530 employees has raised its turnover from Pta5bn in the early 1990s to Pta34bn. Tubos produced 140m tonnes of stainless tubes four years ago when it had 1,100 employees and it will produce 210m tonnes this year with 800 employees.

Is all this activity sustainable? The Basque government's economic strategists and business leaders speak of three main challenges, two of which they have the ability to overcome and one which lies outside their realm of action.

They are first of all anxious to encourage a degree of concentration among the small supplier companies that have emerged in the past two to three years.

They are also determined to build up the port of Bilbao with the addition of a logistical park and greatly increased container traffic facilities.

The revamped port is viewed as the catalyst for the redevelopment of Bilbao's still depressed estuary.

The third challenge is to end the terrorism problem. "What we keep asking ourselves is what would our industry look like if we didn't have to live with political violence," says Mr Zuba of the employers' confederation.

PROFILE *Mondragó Co-operatives*

Worker-ownership system has become a model

The coaches that have been ferrying World Cup soccer teams around France for the past few weeks are all of the same make, from deep in the heart of the Spanish Basque country. The manufacturer, Irizar, is one of the web of co-operatives spreading out from the town of Mondragón, and the contract is a token of a remarkable success story.

Still accessible only by tortuous roads, Mondragón has developed into the base of what is now Spain's 10th-biggest industrial combine, one of its most international groups and its most diversified. Its worker-ownership system, going hand-in-hand with technological innovation and a home-grown welfare organisation, has become a much-envied model.

The first co-operative grew out of a technical school set up by a priest, José María Arizmendiarrieta. Starting with petrol stoves, the network has since branched out into everything from banking to barbecue parts, construction to computer systems and heaters to hypermarkets.

Under the central administration of Mondragó Corporación Co-operativa (MCC), it groups about 100 industrial, commercial, financial, training and research co-operatives, has started running its own university, and operates overseas manufacturing ventures from Brazil to China.

A significant force in industries such as car components and machine tools, it is forecasting 18 per cent growth in combined turnover this year to Pta856bn, with foreign sales approaching half its manufacturing output. Consolidated results – to anyone else, profits – were Pta52bn before tax last year; 46 per cent up.

New ventures have sprouted spontaneously. Because co-ownership makes it difficult to shed employees, overstaffing problems are resolved by transferring people to other activities within the network.

Members have three sources of income – "working advances" (i.e. wages), "returns" (equivalent to dividends), and interest on the money invested in the co-operative.

New entrants stump up a Pta1.5m deposit, which can be docked from pay over three years. Annual "returns", paid according to the job performed, are reinvested in the member's account, although part may now be taken in cash. Pay differentials were initially limited to a scale of one-to-three, but this has been progressively extended to about one-to-six. Top managers accept about 70 per cent of market rates.

However, in a fast-rising and increasingly far-flung workforce of 37,500, co-operative members now make up less than two-thirds. The group has not tried exporting its co-ownership arrangements to overseas joint ventures, run on more orthodox lines with more standard pay structures.

Some of Mondragón's admirers might be a little dismayed. But the co-operatives have always had a strong dose of Basque practical sense mixed into the idealism.

David White

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POLITICS • by David White

Eta problem splits parties

Spain's leading parties are divided on how to halt separatist violence

The Basque Country is not Northern Ireland. Spanish politicians never tire of saying it, and British and Irish politicians have learnt diplomatically to echo them.

The only thing they have in common, the argument goes, is terrorism – western Europe's two bloodiest and most durable campaigns in modern times.

The Basque region does not have the same background of religious divide and confrontation between communities, and it is not a place of automatic sectarian allegiances. Its political violence, which started 30 years ago, originated in the repressive climate of a Spanish dictatorship. Since the mid-1970s, in contrast to Northern Ireland's institutional vacuum, it has consolidated the instruments of self-government.

But the differences simply magnify the puzzle as to why Northern Ireland, with its recent political settlement, should be more amenable to a peaceful solution.

The main Spanish and regionalist parties have been moving further away from, rather than closer to, a consensus on how to try to end violence by Eta separatists, which has so far cost about 800 lives. Basque opinion favours negotiations with the extremists. But for parties operating outside the Basque Country, any move that might seem a concession to Eta pressure is viewed as a vote-loser.

Differences are aggravated by the approach of Basque Country elections in October. The contest has strained uneasy alliances between the Basque Nationalist Party (PNV), which heads the regional government, and Spain's two chief mainstream parties – with the Socialists at regional level and the Spain's ruling Popular party (PP) at national level.

The PNV lost absolute control through an internal split in 1985. It made a pact and then a coalition with the Socialists, later bringing its splinter party Eusko Alkartasuna (Basque Solidarity) into a three-party government.

Middle-class and business-oriented, the PNV then agreed to lend its support in the Spanish parliament to the incoming PP minority government, in a hard-won deal two years ago.

While this deal opened the way for further transfers of powers by Madrid, Basque government leaders complain of a "lack of understanding", going back to the last years of Spain's previous Socialist administration.

"Every time there has been a transfer of powers, it has been the result of a process of tension and necessity on the part of the government of the time," says José Antonio Ardanza, regional president.

Nicolás Redondo, regional Socialist leader, says the PNV and the Socialists concurred on terrorism but on nothing else. With the PP it is the other away round: "The PP and PNV are ready to agree on everything, but not terrorism."

The disarray between parties was demonstrated in March when Mr Ardanza tabled proposals to open the way for open-ended talks involving Herri Batasuna. The initiative, a last-chance effort before his retirement, aimed to breathe new life into an agreement reached 10 years ago between the other parties in the region. Talks would be conditional on a permanent Eta ceasefire, with the idea that Madrid should accept whatever the parties agreed.

All the specifically Basque parties and the Communists were in favour. The Socialists were broadly sympathetic but critical, and the PP adamantly against.

"It was a spectacular failure," says Mr Redondo. "We have been set back many years." He hopes inter-party consensus can be rebuilt after the elections but divisions remain over the scope talks might have.

The PP and Socialists agree they must keep to the terms of Spain's 1978 constitution and the subsequent Basque autonomy statute. Mr Ardanza argues that the constitution is "not untouchable". The PNV, convinced of the need to keep a negotiating door open, has embarked on its own contacts with Herri Batasuna. Carlos Iturgaiz, the PP's Basque leader, says there is no question of talks while Eta continues its campaign. The PP itself, rapidly building up its political base in the region, has become Eta's prime target, and its representatives now go round with bodyguards.

"We have to say there is nothing to talk about as long as the killing goes on," says Mr Iturgaiz. He adds: "Once there's a ceasefire, there's a very clear change of scenario."

But Spanish government officials are increasingly explicit in the belief that Basque violence is a question of policing rather than politics. They see police action as being backed up by improved collaboration by France against Eta members based there, as well as the pressure of public opinion – the latter most evident in the outcry a year ago over the murder of a young PP councillor taken hostage by Eta.

Xabier Arzalluz, the PNV's former Jesuit leader, accuses the government of preferring to keep low-level terrorist violence rather than weaken the unity of the Spanish state.

The quarrels provide Eta with evidence of the impact it can exert on Spanish politics. At the same time, the organisation continues to enjoy backing from a significant minority.

The vote for its Herri Batasuna allies is declining, but not disappearing. In the last regional election the party won more than 16 per cent – more than the PP. It became increasingly radicalised in 1995 when a faction questioning the "armed struggle" was voted down. An overtly pro-Eta election video led to a trial in which all 23 party leaders received seven-year jail terms last December.

A militant worker movement, including many people of non-Basque families, the party exists alongside a web of radical labour, youth and other organisations, legal or otherwise. The relative infrequency of recent Eta attacks is compensated by street violence by young supporters, who have sometimes taken over whole areas of towns.

Demands for transferring Eta convicts to jails in or near the region are a strong rallying point.

Security officials in the region say Eta has "the capacity to continue" until these sectors of opinion stop supporting it.

PROFILE Jon Juaristi

Book led to death threats

Jon Juaristi, 47, a professor at the University of the Basque Country, can claim kinship with Salman Rushdie. He is protected by a team of bodyguards and travels with a police escort to the campus at Vitoria where he teaches philology.

"I don't feel I'm a high risk target, but the anti-terrorist people whose job it is to know about these things say I am, so I have to live with all the security precautions," says Mr Juaristi. Documents providing a detailed breakdown of his movements were reportedly discovered by police earlier this year during a raid on Eta supporters.

His experience has lent a new dimension to the shootings, bombings and street riots that have periodically rocked Spain's industrial heartland and his case is not an isolated case. He is one of a handful of Basque academics who have courageously spoken out against the violence of the radical camp and against what they view as a growing encroachment of civil liberties under the Basque nationalist government.

He is one of several in this small group who have received death threats in return.

Mr Juaristi's "crime" is that he has written a book entitled *El Bucle Melancólico, Historias del Nacionalismo Vasco* (The Melancholy Knot, Histories of Basque Nationalism) which savages the rhetoric and the myths that frame the area's ethnic politics.

Bucle, a mix of personal memories, academic research and reasoned common sense, has remained on the best seller list since it was published last October.

In a hate campaign reminiscent of the *fatwah* faced by Mr Rushdie following the publication of *Satanic Verses*, Bilbao-born Mr Juaristi has been branded as a traitor by the violent Basque radicals and by the mainstream and supposedly moderate Basque Nationalist Party (PNV) as well.

Nationalists of different hue say Mr Juaristi has betrayed the cause because he was one of them – his family has impeccable PNV credentials and he himself was a member of Eta in the late 1960s.

Mr Juaristi is unrepentant. "What I argue is that nationalism has become increasingly fundamentalist and is systematically voicing historical falsehoods that fuel the practice of exclusion politics. The young are told that good Basque nationalists are repressed by bad Spanish nationalists when they should be taught the truth: that the Basque Country has been an extremely plural society for more than 100 years."

His specific quarrel with the PNV is that it remains ambiguous over Eta: "What I want is a clarification of the party's position on terrorism."

He has travelled a long way since, as a teenager, he joined Eta's "armed struggle" against the Franco dictatorship. Marxism, which replaced his early rabid nationalism, has given way to an admiration for liberals such as the late Sir Isaiah Berlin and *Bucle* traces Mr Juaristi's journey from nationalist resistance against Francoism to democratic resistance against the totalitarianism that he firmly believes nationalism has come to represent.

"The Basque nationalist government has created a system of client politics through the very extensive patronage that it is able to extend," says Mr Juaristi. "Because of this it can effectively delegitimise and exclude whoever is critical of nationalism."

Mr Juaristi is regularly described as a turncoat by PNV leaders, and in the nationalist party's press, but his exclusion became potentially deadly when he was targeted by Eta. He roundly blames the mainstream party for this: "the PNV uses Eta as a dissuasive force and that is what it has done to me."

Tom Burns

PROFILE Juan José Ibarretxe

Discreet figure was reluctant election candidate

Juan José Ibarretxe has been busy taking intensive lessons in the Basque language – the one gap in his credentials to become the next *lehendakari*, or Basque regional president.

Standing for the Basque Nationalist Party, which has always won the most votes in the region, his succession to the post is almost a foregone conclusion in the elections to the regional parliament on October 25.

A 41-year-old economist, he happens to come from a part of the region where Basque is not much spoken, and is of a generation that finished school before it became standard for all pupils to learn at least some of the difficult tongue. The regional government wants all its civil servants to be able to speak it, too. A PNV *lehendakari* could hardly be without it.

What is galling is that – equally atypically – Carlos Iturgaiz, the candidate of the conservative Popular party, is proficient in Basque, having learnt it since he was 15.

Mr Ibarretxe, a discreet and still unfamiliar figure to many Basque voters, was a reluctant candidate. Vice-president and head of finance and public administration in the outgoing regional government, he is more noted as a technocrat and negotiator than a politician. But then the PNV, operating differently from other parties in Spain, makes a rigid separation between party posts and public office. Anyway, his low-profile image is unlikely to be a handicap: the Basques tend to be suspicious of flashiness or flaunted ambitions.

The retirement of Jose

Ibarretxe: gained a reputation as a staunch defender of the region's financial autonomy

Antonio Ardanza, the region's outgoing PNV president – who was also little known before he took over the post in 1985 – marks a change of generation in Basque politics. The Socialists, until last week a partner in the PNV-led ruling coalition, are now led locally by 40-year-old Nicolás Redondo, son of a celebrated trade union figure. And the PP's Mr Iturgaiz, challenging the Socialists as second party in the region, is 32.

Mr Ibarretxe, a former mayor of his home town of Llodio, south of Bilbao, will be the first Basque president from the inland Alava province, where the regional capital Vitoria is situated but where Basque nationalism is weakest.

An accomplished long-distance runner, he displays the same relentless stamina at work. As a budget expert in the Basque parliament and in his current vice-president's post he has gained a reputation as a staunch defender of the region's financial autonomy.

"We do not have any privileges, he wrote recently. "We only have our due."

David White

هكذا من الأصل

PROFILE Athletic de Bilbao

Cause to unite all

Except for a discreet stone shield above the door, there is no sign to identify the headquarters of Bilbao's Athletic football club. It is assumed everybody knows.

The solid Basque mansion, with overhanging roof and iron balconies, one-time city home of magnate Ramón de la Sota, is one of the emblems of an incomparable local institution and an exception in the soccer world..

Now in its centenary year, Athletic is the one cause that unites all political tendencies and social classes in the Bilbao region.

"We are a unique club in the world," say club officials, "in the sense that we have always stayed in the elite, counting only on our own players."

Never relegated from Spain's first division – a distinction shared only by Real Madrid and Barcelona – and the record-holder for national cup titles, Athletic has stuck to a policy of remaining a truly local team.

By an unwritten rule, it fields only players from Basque families or who have come up through its junior ranks at its famous training grounds outside the city. "There is no law that obliges us, just tradition," it says.

It did have one foreign player in 1996-97: French international Bixente Lizarazu, but he counted as a Basque. Its managers, by the same tradition, have been either Basques or non-Spaniards.

Current coach Luis Fernández, though born in southern Spain, passes this criterion by being a French citizen.

The club began with strong British connections. Bilbao's first real football match is said to have been played in 1894 at a place popularly known as the Englishmen's Field, in the riverbank zone where the new Guggenheim museum now stands. It was between English seamen and young locals, and the visitors won 6-0.

Bilbao in that period attracted many British merchants and engineers, and Athletic had Britons among its founders. Early teams featured names such as Mills and Evans.

The red-and-white-stripe "Lions" have since accumulated 24 Spanish cups and eight league titles. Their San Mamés stadium in central Bilbao is known in the game as "the Cathedral".

Athletic, owned by its 33,000 members, says it is strong enough financially to avoid having to convert into a company like most other clubs. "We don't go around buying Brazilians," it explains.

Its big project now is a new, larger stadium to replace the 40,000-seat San Mamés, built 85 years ago.

With no sporting involvement outside soccer – "We don't get into things we don't know about" – it has an active merchandising side, and an Athletic credit card, operated by the BBV bank group and the BBK savings bank.

David White

TOURISM • by Tom Burns

Fresh perceptions taking root

The success of the Guggenheim museum means a 'risky gamble' may be paying off

When the Guggenheim Bilbao museum was inaugurated late last year by King Juan Carlos, a huge cast of notables assembled in the titanium-clad edifice designed by California architect Frank Gehry. Among the guests at the gala launch were 400 wealthy movers and shakers from the US.

"What amazed me," said a Basque businessman who was present, "was how happy all those Americans were about walking around Bilbao with their dinner jackets and their evening gowns, their gold cufflinks and their jewels."

Mr Gehry's spectacular creation has been described as the last great building of the 20th century and the collection that it houses is said to provide better pointers on the future direction of art than any other museum outside the Solomon R. Guggenheim Foundation's headquarters in New York.

That is at least what the public seems to believe: more than 600,000 have toured the museum in the first six months of its existence and the original projection was that there would be 500,000 visitors in the whole of its first year.

The "amazed" Basque, whose company had pumped funds into the Guggenheim Bilbao in order to qualify as one of its founder patrons, recalled how the American guests were touring Bilbao in all their elegance, stopping at tapas bars on their way back to their hotels from the reception without a care in the world.

"They would never have dared walk a block in New York dressed up like that," he said.

His observation is a useful counterpoint to the steady news diet that is generated by terrorism.

As the Irish peace process progresses, the Basque Country has gained the unenviable status of western Europe's most politically violent area. Indeed, a policeman was killed when he foiled an Eta plan to bomb the museum on its inauguration.

But, paradoxically, Basque towns have a very low level of street crime.

The extraordinary capacity that the museum has so far demonstrated to pull in huge crowds – 40 per cent of the visitors are estimated to be non-Spaniards – suggests that new perceptions about the Basque Country will gradually take root.

This was, in fact, one of the main reasons why the Basque authorities painstakingly negotiated a wide-ranging agreement with the New York foundation.

In the run-up to the Guggenheim Bilbao's opening, Joseba Bergara, the politician who holds the purse strings for Bilbao and its surrounding province of Vizcaya, admitted that that the venture was a "risky gamble".

The acquisition of what Mr Bergara termed "an emblematic symbol like the Sydney Opera House" was certainly not cheap.

The Basque administration paid some Pta23bn for the modern art package, a price that included the cost of the Gehry building, a Pta2bn franchise payment for use of the Guggenheim name and Pta6bn set aside for the acquisition of works, on the advice of the Guggenheim, for the Bilbao museum's own collection.

It also undertook to pay the bill for annual deficits at the museum which could run to Pta1bn a year through to the year 2000.

The gamble seems to be paying off handsomely. Rosa Diez, who is in charge of the Basque government's tourism department, views the Guggenheim's landing in Bilbao as manna from the sky: "it has put us on the international map, it has opened us up and modernised our image."

Ms Diez, who is a member of the Socialist party, has been working hard to build up the Basque Country's image ever since she joined the regional government seven years ago and she is beginning to see the fruits of her labours.

Last year, 1.1m visitors spent more than two nights in the area, a 24 per cent increase on the total in 1993. And in the first quarter of this year, the Guggenheim factor fuelled a 28 per cent rise in tourists on the total registered between January and March 1997.

Compared with other areas of Spain, however, tourism in the Basque Country is modest and the sector accounts for barely 4 per cent of local gross domestic product whereas it contributes 10.5 per cent to the country's overall GDP.

This is entirely the consequence of political violence. San Sebastian, with its stunning bay and its turn-of-the-century elegance, was the first proper domestic resort and it remained Spain's summer capital until well into the 1960s which was when Eta started its terrorist campaign.

"Of course, my job is made difficult by the violence," Ms Diez says. "If we had no terrorism over the next five years, the growth of tourism here would be quite spectacular. Even with terrorism more people are starting to come."

They are beginning to do so not just because of the Guggenheim magnet, but because the Basque Country is a gourmet's paradise (eating is a ritual in the humblest tavern of the smallest hamlet) and because its valleys and mountains, with their very specific ethnic feel, are very beautiful indeed.

One of Ms Diez's most precious products is a bed and breakfast industry built around the caseríos, the isolated family farmhouses that are dotted around the slopes of the Basque Country's bright green hills.

The scheme's start-up was slow; only 40 farmhouses signed up for the scheme in the first five years of its existence, but lately it has gathered considerable pace.

In a sure sign that the Basque Country is "opening itself up", Ms Diez now has 170 caseríos on her bed and breakfast books, many of which sell local foods and crafts, and a network of mountain tracks for hikers.

The reluctance of rural communities to invite strangers into their midst has given ground to the broad Basque traits of natural warmth and hospitality.

They would probably invite in the Guggenheim's transatlantic glamour crowd if it turned up on their doorstep.

PROFILE Euskaltel

Basque phone company has taken off

The creation of Euskaltel, Spain's first regional phone company, owes as much to the Basques' long-held desire for greater autonomy as it does to the wider liberalisation sweeping through European telecommunications.

The new operator, majority-owned by Basque institutions, started commercial operations in January. By May, it had signed up more than 100,000 customers – about 11 per cent of the Basque market. According to Euskaltel, this penetration is higher than that of many other second operators, and it attributes its success to customer dissatisfaction with Telefónica, the former state monopoly.

"The end to 74 years of Telefónica's monopoly" was Euskaltel's rallying call when it started services with the promise of average savings of 15 per cent on international and long-distance calls.

Euskaltel is, however, currently limited by its inability to offer local calls and its dependence on Telefonica's local network to reach customers' homes and offices. This "indirect access" arrangement means customers must remember to dial a prefix before each call if they want to use Euskaltel. Another problem is that customers cannot call mobile phones via the Euskaltel network.

The Basque operator has started building its own local infrastructure to bypass Telefónica's and provide customers with "direct access" for all types of call. Work started in June on a pilot direct service available to selected streets in 18 towns and Euskaltel plans to extend this direct access network to reach 90 per cent of the Basque population within five years.

By 2007, the Basque operator hopes to have 300,000 lines installed, representing more than a quarter of the market, and by then virtually all customers should have direct access.

The creation of Euskaltel emerged from the Basque government's early recognition of the strategic function of telecoms in stimulating high-tech industries and creating technology-based jobs to counter those lost through the closure of traditional industries.

In the early 1990s, the regional government invested heavily in a high-speed optical fibre "backbone" network that would be used to offer advanced telecoms and cable television services for the Basque Country. However, the government's ambition to play a strong interventionist role in the development of telecoms took it on a collision course with European Union liberalisation directives.

This was only resolved last year when the government dismantled the publicly-funded company that had been directing investment in this sector and handed over the role to Euskaltel, in which the Basque government holds just a 5 per cent stake.

Euskaltel has taken over infrastructure that has already been built and plans to invest Pta105bn over the next 10 years to extend the backbone network and build its local networks.

Euskaltel's main shareholders are local banks BBK and Kutxa, utilities Endesa and Iberdrola, and Telecom Italia, its technology partner. As well as the Basque government, other smaller shareholders include Spain's second national network operator, Retevision, the Basque TV network and MCC, the holding company for the Basque co-operative movement.

Retevision does not operate in the Basque Country and Euskaltel effectively acts as its franchise holder in the region.

In addition to basic telecoms, Euskaltel has been quick to enter new markets such as internet access. It already has 6,500 customers for its Euskalnet service, representing about 10 per cent of the Basque internet access market. The service in its basic form is free to Euskaltel customers, which has attracted vociferous complaints from other internet service providers.

Euskaltel also plans to enter the cable TV market and last month presented a bid to operate the cable concession covering the Basque Country. The winner will be announced later this summer.

Geoff Nairn